

**LEGISLATIVE PROPOSALS IN THE UNITED STATES
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT'S FY2013 BUDGET**

HEARING
BEFORE THE
COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE
ONE HUNDRED TWELFTH CONGRESS

SECOND SESSION

ON

EXAMINING THE LEGISLATIVE PROPOSALS IN THE DEPARTMENT OF
HOUSING AND URBAN DEVELOPMENT'S FY2013 BUDGET

APRIL 26, 2012

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LEGISLATIVE PROPOSALS IN THE UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT'S FY2013 BUDGET

THURSDAY, APRIL 26, 2012

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, DC.

The Committee met at 10:05 a.m., in room SD-538, Dirksen Senate Office Building, Hon. Tim Johnson, Chairman of the Committee, presiding.

OPENING STATEMENT OF CHAIRMAN TIM JOHNSON

Chairman JOHNSON. I call this hearing to order. I am pleased to once again welcome HUD Secretary Shaun Donovan to the Committee to discuss the Administration's budget request and HUD's legislative agenda. Secretary Donovan, while we have seen economic improvement since your last appearance, too many of our families and our State and local government partners continue to struggle.

HUD studies have shown troubled increases in both worst case housing needs and family homelessness during this economic downturn. As our need for affordable housing has risen, HUD and local providers face increasing difficulties in preserving the resources we have to aging buildings and expiring affordability contracts.

Meanwhile, State and local governments are cutting services and job creating investments. Far too many American families and communities still face the threat of foreclosure and millions more have seen their property values fall in a fragile housing market. And as we discussed with you a few weeks ago, more needs to be done to remove barriers to the recovery of the housing market and the broader economy.

Although we are focusing on the legislative proposals and HUD's budget request today, we plan to have you back to continue that housing market discussion in the next several weeks. As the country faces these challenges, the Federal Government must ensure that we make wise investments and preserve our important programs that help those most in need.

At the same time, we must be mindful of our budget constraints and assure that we get the most value for our dollar. I understand that you have made a number of hard choices in your FY2013 budget, cutting or freezing the funding for several programs that you otherwise support in order to meet physical goals.

But your budget also contains a number of proposals intended to increase HUD's effectiveness. These include proposals to streamline our public housing and Section 8 programs to make them more effective for families and local administrators, help create and preserve public-assisted housing, and empower local communities as they plan for their futures.

In addition, you have also focused on strengthening the management and financial standing of the FHA insurance programs. While FHA is providing critical countercyclical financing to the housing market, it is burdened by the legacy of loans made prior to 2009. It needs careful management.

Although we have recently heard some dismiss the importance of HUD's existence, the Department administers programs aimed to provide access to quality, affordable, and safe housing for homeowners and renters. These programs have provided a lifeline to millions of the most vulnerable Americans. They have also bolstered the American housing market as it threatened to grind to a halt. In today's economy, they are more important than ever.

I look forward to hearing more about your proposals during today's hearing. I will now turn to Senator Shelby for any opening remarks he may have. Senator Shelby.

STATEMENT OF SENATOR RICHARD C. SHELBY

Senator SHELBY. Thank you. Welcome, Secretary Donovan. You have been a pretty regular up here. We appreciate you. Today we meet to discuss the Department of Housing and Urban Development's fiscal year 2013 budget. And although HUD's \$45 billion budget is just one slice of the Federal Government's overall budget, the skyrocketing Federal debt means every department needs to practice fiscal discipline.

Last year, the Federal deficit, as you probably realize, reached \$1.3 trillion. That is the third year in a row of deficits of over \$1 trillion. Unheard of in the United States of America. These deficits have put the Federal debt at nearly \$11 trillion, or about 70 percent of GDP, its highest level since World War II.

I believe we cannot continue to ignore our mounting fiscal problems. Instead, we must begin to address the issue by enacting budgets that curb the cultural spending in Washington and institute fiscal reforms. During this Administration, HUD has focused on achieving short-term goals, I believe, without adequately considering the long-term cost.

Most importantly, the Department has not taken sufficient action, I believe, to address the growing risk to the budget and taxpayers presented by the Federal Housing Administration. Over the past 3 years, FHA's portfolio has expanded from \$500 billion to \$1.3 trillion. It now insures more than 20 percent of all new mortgages.

And while some of this expansion was an appropriate response to the housing crisis, FHA's growth has not been managed wisely, I believe. First, even though the Administration's public position calls for reducing conforming loan limits, the President signed legislation to allow FHA to continue to insure mortgages of up to nearly \$730,000.

Prior to 2008, FHA could insure mortgages only up to \$417,000. This means that FHA is now helping homeowners purchase million-dollar homes. FHA, I believe, should be focused on helping first-time and moderate income home buyers, not millionaires.

Second, FHA insurance premiums are insufficient to cover losses and buildup needed capital reserves. According to FHA's own reporting, over the past year, FHA insurance premiums covered less than 80 percent of its \$9.4 billion in net default losses, and as a result of insufficient premiums, the President's 2013 budget estimates that FHA would have needed a bailout to the tune of \$688 million if FHA had not received funds from the mortgage servicing settlement.

Even more troubling is the fact that the HUD budget has historically underestimated the cost of FHA loans. And because its estimates of FHA loan performance are not adjusted for market risk, the budget does not reflect the true cost of guaranteeing loans during weaker economic cycles.

The Congressional Budget Office has said that by not incorporating a market risk premium, the HUD budget underestimated the cost of FHA single family loan program in 2012 by \$8 billion, Mr. Secretary. Furthermore, Wharton Professor Joseph Gyourko has argued that FHA's accounting also greatly underestimates default risk and loan losses. After factoring in the huge growth of FHA's portfolio, he predicts that FHA will ultimately need a bailout of \$50 billion to \$100 billion.

It is clear that FHA needs to be reformed to prevent another taxpayer bailout. I would hope that we could all agree that the first place to start is by ensuring that FHA is properly accounting for the risk, Mr. Secretary, that it assumes. I also hope that we could enact broader reforms, working with you, before the problems of the FHA grow larger and become more expensive to fix.

This Committee, I believe, made a serious mistake by not reforming the GSEs when we had the chance. That mistake has cost the taxpayers nearly \$200 billion and counting. I hope the Committee will not make the same mistake with FHA. Thank you, Mr. Chairman.

Chairman JOHNSON. Thank you, Senator Shelby. I want to remind my colleagues that the record will be open for the next 7 days for opening statements and any other materials you would like to submit. Before I introduce Secretary Donovan, I would like to note that I will have to step out to attend an Appropriations Committee mark-up at 10:30.

Senator SHELBY. We both will.

Chairman JOHNSON. Right. And Senator Merkley has agreed to chair the Committee in my stead.

Now I would like to briefly introduce the Secretary. Secretary Shaun Donovan is the 15th Secretary at the Department of Housing and Urban Development. Secretary Donovan has served in this capacity since January 2009. Secretary Donovan, you may proceed.

STATEMENT OF SHAUN DONOVAN, SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. DONOVAN. Thank you, Chairman Johnson and Ranking Member Shelby for this opportunity. It is good to be back with you

again today. I would like to discuss how HUD's fiscal year 2013 budget proposal is essential to creating housing in communities built to last and will support 700,000 jobs.

Mr. Chairman, in developing this proposed budget, we followed four principles. The first is to continue our support for the housing market while bringing private capital back. The critical support FHA provided the last 3 years has helped nearly 2.8 million families buy a home, and more than 1.7 million homeowners refinance into stable, affordable products, with average monthly savings of more than \$125.

At the same time, we have taken the most significant steps in FHA history to reduce risk to the taxpayer and reform FHA's mortgage insurance premium structure. With the premium increases of 10 basis points recently enacted by Congress, coupled with additional premium increases on jumbo loans reflected in the budget, FHA projects to add an additional \$8.1 billion in receipts to the capital reserve account in 2013.

And last month, we announced a series of premium changes that will increase receipts to FHA above those already in the budget by \$1.48 billion in fiscal years 2012 and 2013. We have also taken significant steps to increase accountability for FHA lenders and continue to seek expanded authority via legislation that will further enable us to protect the fund, as will the recent settlement with some of America's largest banks through which FHA will receive approximately \$900 million to compensate for losses associated with loans originated or serviced in violation of FHA requirements.

With FHA's market share declining since 2009, these reforms will further help private capital return while ensuring that FHA remains a vital source of financing for underserved borrowers. Overall, the HUD budget submitted in February requested \$44.8 billion in gross budget authority. This program funding level was offset by \$9.4 billion in projected FHA and Ginnie Mae receipts at the time the budget was submitted, leaving net budget authority of \$35.4 billion, or 7.3 percent below the fiscal year 2012 enacted level of \$38.2 billion.

However, because of the premium increases I just mentioned, the Administration now projects that the cost for this budget is offset by an additional \$894 million, more than meeting our deficit reduction targets while still allowing us to improve oversight of our programs.

As you know, the Congressional Budget Office provided the Congress with its own scoring of our receipts, which was \$1.7 billion higher than the President's submission. This higher total governed the recent mark-up of the fiscal year 2013 HUD budget bill by the Appropriations Committee.

And while this higher level of offsetting receipts enabled the Subcommittee to provide increased budget authority to HUD, the bill passed by the full Committee continues to reflect the principles we followed in formulating the President's budget submission, the second of which was to protect current residents and improve programs that serve them.

The 5.4 million families who live in HUD-assisted housing earn \$10,200 per year, on average, and more than half are elderly or disabled. That is why 83 percent of our proposed budget keeps these

residents in their homes and provides basic upkeep to public housing, while also continuing to serve our most vulnerable populations through our homeless programs.

As you know, inflation and stagnant incomes put real pressure on the cost of these programs each year. This year we redoubled our efforts to minimize and even reverse these increases not just for this year, but in the years to come. For instance, we are working to enact Section 8 reform legislation that would save \$1 billion over the next 5 years, while also reducing regulatory burden on both PHAs and private owners who receive project-based rental assistance, supporting the ability of PHAs in small towns and rural areas to better serve the working poor, and improving the successful Family Self-Sufficiency program.

We have been working closely with your counterparts in the House on the Affordable Housing and Self-Sufficiency Improvement Act, and expect that a bill will move to the House floor in the near future. I urge this Committee to take up this legislation and I am committed to providing any support you need to move a bill this year.

The budget also achieves additional savings in the Project-Based Rental Assistance program by improving oversight of market rent studies, capping certain annual subsidy increases, and offsetting excess reserves.

I should note that should Congress fail to come to an agreement within the framework of the Budget Control Act, the sequestration that would result, by design bad policy, could well mean that many families now receiving HUD rental assistance would be put out on the street and undo virtually all the progress we have made toward ending homelessness.

Further, struggling homeowners across the country would not get the housing counseling needed to help them stay in their homes, and communities of all sizes would lose funds they count on to build infrastructure and create jobs. Already, protecting current families required us to make choices we would not have made in a different environment, and I would urge Congress to pass the kind of balanced deficit reduction the President has proposed to avoid putting a greater share of this burden on our poorest families.

Indeed, the need to stretch Federal dollars even further reminds us why our third principle, continuing investments that leverage private dollars and create jobs, is so important. Through our Choice Neighborhoods program we are helping communities engage a broad range of public and private partners to transform our poorest neighborhoods and ensure our children are prepared for the 21st century economy.

And I want to thank Senator Menendez for chairing a hearing on Choice Neighborhoods last month and look forward to working with the Committee on moving authorizing legislation for the program in the coming months. Likewise, our Sustainable Communities Grants challenge communities to creatively use existing resources that help them in-source and bring jobs back to our shores.

Earlier this month, I saw for myself how Memphis is using HUD's Community Challenge Grant to more effectively invest Federal and State resources in neighborhoods surrounding its inter-

national airport, not only helping FedEx create over 3,000 new jobs in Memphis, but also aligning regional housing, transportation, and economic development strategies to ensure this growth benefit neighboring Arkansas and Mississippi.

Interstate planning is particularly critical to smaller places. Nebraska and Iowa, Idaho and Wyoming, and South Dakota's Pine Ridge Indian Reservation are but a few examples of rural and tribal economies using regional planning grants, which I would note flow not through their States, but directly to them.

At a time when this environment has required us to make tough choices about CDBG and HOME, dollar-for-dollar the most effective job creators in our budget, these grants leverage the limited resources of core programs smarter and more efficiently. Indeed, reducing regulatory burdens and increasing efficiency is the fourth principle we used to formulate this budget.

For example, the budget provides key flexibilities to PHA such as combining their public housing operating and capital fund allocations to better manage in this fiscal environment. It also continues critical transformation initiative research and demonstration programs, which allow us to propose increased investments in programs we know work like permanent support of housing and rapid rehousing that end homelessness and save money.

That is why even in this difficult environment, we propose additional funding for homeless assistance grants and the HUD-VASH program for homeless veterans, ensuring we can end chronic and veteran homelessness by 2015.

All told, despite tough choices, this proposed budget allows us to serve 27,000 more vulnerable families. It recognizes that the recovery of our housing market is essential to our economic recovery and it expresses our belief that every American should get a fair shot, do their fair share, and play by the same rules. Thank you.

Chairman JOHNSON. Thank you, Secretary Donovan, for your testimony. As we begin questions, I will ask the clerk to put 5 minutes on the clock for each Member.

Secretary Donovan, in your testimony, you touched on some of the steps you had taken to increase the solvency of the FHA's MMI Fund. We also discussed the status of FHA at your last hearing with you. Could you update us on the actions you have taken and the status of your implementation? Are there additional authorities you need to ensure the solvency of the fund and enhance your oversight of FHA lending?

Mr. DONOVAN. Thank you, Mr. Chairman. The most critical steps we have taken recently include the settlement that I mentioned, which was the result of years of extensive investigations we did of servicing and origination practices, and also the premium increases that I mentioned. Already going into effect are not only the 10 basis point increase, but larger increases on jumbo loans.

As the Ranking Member mentioned, we did support bringing our loan limits down to a lower level. We were discouraged that that did not happen last fall. And so, one of the steps that we took, which will speed the transition of private capital coming back to larger loans, was to implement larger increases for those larger balance loans. Those are all critical steps.

But there are additional particularly enforcement steps that we would like to work with this Committee on to get past as quickly as possible. Currently, we do not have the authority that we need to disqualify lenders on a national basis, and to take additional steps that strengthen our ability to hold lenders accountable for poor originations that do not meet our standards under FHA rules.

That is legislation that we have come close to passing in the past working with the Committee, and I believe this year is an important year to finally get across the finish line with that legislation.

Chairman JOHNSON. In light of the need for Senator Shelby and I to excuse ourselves, I yield to Senator Shelby.

Senator SHELBY. Mr. Chairman, thank you. The Secretary, I think, understands that we both serve on the Appropriations Committee and we have a full mark-up. If HUD's budget was there, he would understand it more, would you not?

Mr. DONOVAN. Absolutely.

Senator SHELBY. Mr. Secretary, it has now been over a year since you and Secretary Geithner submitted your white paper on housing finance reform. At that time, Secretary Geithner stated that the Administration would work with Congress to develop housing finance legislation and that, quote, would like to try and do that within the next 2 years.

Recent press accounts have suggested that the Administration may—may is the magic word in it—may be sending a legislative proposal to Congress in the next few weeks. One, has the Administration prepared a legislative proposal, as has been reported in various media outlets, and if so, when do you expect the legislative proposal, if you have prepared it, would be sent to Congress? This is May 1st coming up.

Mr. DONOVAN. First of all, Senator—

Senator SHELBY. A fair question.

Mr. DONOVAN. Absolutely. And this is one of the most critical areas, as you rightly pointed out, for us to move on. We have made significant steps toward bringing private capital back that were part of that white paper, that are within our own authority, and I think that is a critical point—

Senator SHELBY. That is very important.

Mr. DONOVAN. —both on the loan limits for Fannie Mae and Freddie Mac, as well as the premium increases that have happened both at FHA. We are also looking at additional ways, without legislation, to bring private capital back through putting private capital ahead of the GSEs.

We have continued to work on refining potential proposals for the GSEs. We have been encouraged to see legislative proposals, some of them bipartisan, in both the House and the Senate. We do not at this point have a specific time table, nor legislation completed to submit to Congress. We are hopeful that there will be bipartisan action as soon as possible on that. But we do not have a specific proposal that we expect to be providing in the next few weeks.

Senator SHELBY. Can we expect, if you are able to do it—we know this is a very complicated problem and a big ticket item—to work with the Congress to let us know, both sides of the aisle,

what is going on here? Because it is going to take both, a bipartisan effort to do this.

Mr. DONOVAN. I completely agree and I would be—I am hopeful, as I said earlier, that there is beginning to emerge more of a bipartisan consensus around potential options. That was the reason we put out the white paper last year and specified three potential options to try to narrow that discussion and lay out the cost and benefits of the various options.

And it is something that we would be happy to continue to work with you and to sit down, even tomorrow, and continue that discussion.

Senator SHELBY. Do you believe that the private market for secondary—you know, for securitized loans is beginning to show a little life?

Mr. DONOVAN. There has been increased activity, particularly on the commercial and the multifamily side, as well as some—

Senator SHELBY. That is why there have been very few foreclosures, is it not?

Mr. DONOVAN. Fewer foreclosures, absolutely. At the single family side, we have seen some increased activity, but I think what is going to be critical is defining, under the qualified mortgage and the qualified residential mortgage rules in the near future, the standards that will help to support a further development of the securitization market.

Senator SHELBY. I think you are right on that. HUD's HOME program, if I can get in that for a minute, there have been serious lapses in HUD's oversight in the HOME program, which is the largest affordable housing block program. HOME has been cited numerous times by both the *Washington Post* as well as the HUD Inspector General for failing to ensure that projects that get funds are completed in a timely manner.

Recently HUD has made some rule changes to the program to try to fix its oversight gaps. Could you explain, just for a minute, the new rules and how you believe that would improve HUD's oversight of HOME, and when will Congress be able to see updated data on the HOME program to determine the impact of these new rules? We all agree that things needed to change there, you, too.

Mr. DONOVAN. Absolutely. And, in fact, we worked with the Appropriations Committee, as you know, to include in the budget last year a number of changes. Those are part of what is included in the rule that has been proposed. We are reviewing comments and we expect to finalize that rule this summer.

I think three of the key areas that we make those improvements, one is our data systems and we have already begun improving the data collection. A second is improving underwriting so that we know that these projects are viable going forward. And then the third is to make sure that grantees are better tracking, through flags and other automatic cancellation, of projects that are not moving forward on a timely basis.

Senator SHELBY. Secretary Donovan, in your written testimony, I believe you stated that HUD, the HUD budget will, quote, your words, contribute to deficit reduction in a substantial way. We hope so. HUD's budget—the budget actually increases spending by \$1.4

billion, though. HUD's budget shows that some of the increased spending will be offset by FHA premiums.

This accounting makes HUD's budget request appear smaller than it could be in reality, and since FHA premiums cannot be used to both fund new spending and increase FHA's capital reserve, is this double counting or is this a budget thing? What is this? How do you explain this?

Mr. DONOVAN. Well—

Senator SHELBY. I am talking to you up here now also as an appropriator, I guess, although we are not in the Appropriations Committee.

Mr. DONOVAN. I completely understand. I think the most important point here, and you pointed this out in your own opening statement, in past years, there have been concerns about our modeling and whether we are accurately reflecting the cost. I was very encouraged that this year for the first time in recent years CBO actually scored our receipts at a higher level than in the President's budget, reflecting the fact that I think they believe that if anything we are underestimating the strength of the loans that we will make next year.

And we are only following budget requirements in terms of the way that we state the offsets for those. There is no question that there will be billions of dollars, a greater return to the taxpayer next year, and therefore, the net cost of our budget is, in fact, significantly lower.

But I would also point out that we are making serious strides in lowering the cost of our core programs. We were able to propose a net decrease actually in our tenant base or voucher program this year.

Senator SHELBY. How did you do that?

Mr. DONOVAN. A lot of that comes from the legislation that we are hopeful will get passed this year that the House is now considering, and it is one of our top priorities. At a time when there is too much discussion of a lack of bipartisanship, this is a bipartisan effort that I think could get done in this Committee this year and I hope that we will be able to accomplish that before the budget is passed.

Senator SHELBY. Thank you. Thank you, Mr. Chairman.

Mr. DONOVAN. Thank you.

Chairman JOHNSON. Secretary Donovan, you have highlighted the potential negative effects of lower funding levels for basic Section 8 voucher administration. I am also concerned that PHAs may be forced to lay off workers and cut back services leading to increased waiting times for voucher recipients and less efficient use of HUD funds.

These budget pressures can be especially severe in States like South Dakota with smaller agencies covering large areas. Given the existing budget constraints, what can be done to streamline some of the voucher program's administrative functions? Could proposals that have been discussed in the Section 8 voucher reform discussion help relieve budget pressures at local agencies and improve the program?

Mr. DONOVAN. The answer to that is absolutely yes, and that is exactly why we are pursuing this legislation. First of all, I am very

concerned about the level of administrative funding for PHAs. We have seen really what has been unheard of. More than ten agencies around the country have actually refused, have turned back to us vouchers that help homeless veterans find housing. We have more than a dozen agencies that have turned back their entire voucher programs just in the first few months of this year because of the substantial cuts that we took last year in the administrative funding.

So we have proposed more than \$200 million in increases for administrative fees for PHAs, and we simply do not think we can take further risks with homeless veterans or others who benefit from these programs. Specifically, what this legislation that you mentioned gives us the potential to do are many common sense steps that will improve administration, but also lower the cost of these programs.

Just take one example. We have more than 50 percent of those who are in our core programs, vouchers, public housing, project-based Section 8, who are elderly or disabled, and generally, their incomes are very, very stable from disability payments, Social Security, and so it does not make sense that we have to decertify them every single year. This bill would allow us to do it every 3 years rather than every year for folks who are on fixed incomes. That is just one example.

It would streamline where units are in good condition our ability to inspect them every other year as opposed to every year. So it is really a risk-based monitoring standard. Those are just a few examples of things that would lower costs and improve the efficiency of the programs.

Chairman JOHNSON. Secretary Donovan, as I discussed with Assistant Secretary Enriquez during our recent hearing on the housing needs consultations, I was pleased that HUD has revised its tribal consultation process for the needs assessment. Meaningful tribal consultation is a key to ensuring a sound assessment. Can you provide me with an update on the status of this consultation process?

Mr. DONOVAN. Absolutely. First of all, we are about to hold the last of a series, more than a half-dozen sections on the negotiated rulemaking that is required. That has been an important step forward, and I hope you have heard, as I have, from the tribes that that has significantly improved the consultation and that has gone well.

In addition to that, we have embarked on a comprehensive, the first in more than a decade, of the needs, housing needs of Indian Country. And we began that with a series of—a number of—I believe it is four or five consultation sessions to establish the outline for that study, and it was part of the implementation of our consultation policy that you asked about.

So those are two important examples, I think, of the way that we are implementing that consultation policy that we arrived at.

Chairman JOHNSON. Senator Merkley, are you prepared to take over?

Senator MERKLEY. You bet.

Chairman JOHNSON. Excuse me, Secretary Donovan.

Mr. DONOVAN. Thank you.

Senator MERKLEY [presiding]. Thank you very much, Mr. Secretary, and I appreciate all of the great work you are doing on such an important area as housing. It is housing that brought us into this recession, and certainly, depending on how we manage it, it is either going to lengthen the time that we are in the economic ditch or it is going to help us find a path forward.

I thought I would focus on some detail questions related to the nitty-gritty of housing support, starting with the HUD proposal to recapture the residual receipts accounts of certain multifamily properties to backstop rent assistance funding. In a number of cases, nonprofits have been using these funds to pay for services for tenants. The transition to that funding will create some dislocation, that possibility. And any insights or thoughts about that issue?

Mr. DONOVAN. Yes. First of all, I would just say, as an overview, that we made some decisions in this budget that we certainly would not have made in more normal times, and this was a very difficult decision in terms of what to do with those receipts. Generally speaking, the understanding has always been under these contracts that those receipts could be recaptured by HUD, and we have allowed consistently the ability to use those receipts.

So I think we would be looking in a targeted way where they are critical for providing services, where they are critical for providing those other needs, that we would have some flexibility on being able to use those. We are really talking about excess accounts, and there are significant amounts. We just felt that at a time when we are making very difficult choices about rent levels and other things, that we could not let these accounts sit idle, to the extent they were sitting idle, and there are millions of dollars that are, that we ought to look at these.

It is consistent with what we have done with housing authorities to recapture excess balances there and we felt that it was only fair that we look across the board in doing that.

Senator MERKLEY. Thank you. And I realize there are many decisions that are being driven by trying to find—squeeze efficiencies, if you will. I believe one of those is to go from annual inspection of housing units to biennial or biannual inspections, and there have been some cases where units have not been maintained as well as we would have hoped. Is this a concept that has been test-piloted or is there any particular concern about property quality being lost in the process?

Mr. DONOVAN. Two things I would say about that. First, this allows but does not require that inspections go to biannual, and what we are trying to achieve is really more of a risk-based approach. We have units that are in very good condition where it does not make sense to do an annual inspection. On the other hand, there will be some where there will need to be annual or even more frequent inspections. So what we are trying to move to is rather than a one-size-fits-all policy to more of a risk-based.

The other thing I would say, though, is we are concerned that we have operated for too long at HUD with different systems for inspections, and in particular, we use housing quality standards for vouchers. We use a different system through our REAC process for our public housing and our project-based Section 8, and we think

there are significant improvements that we can make to the housing quality standards by incorporating what we do on the REAC side.

So we are looking at effectively combining, in some ways, those different standards, and also through technology, stepping up the oversight that we do. Using our REAC inspectors, we have a protocol that we are putting in place right now—the pilot has been successful—to go back and do re-inspections, quality control, if you will, of inspections by housing authorities that I think will go a long way to making sure we do not have problems in the way the inspections are working and making sure that the units are in good condition.

So those, along with the technology solutions, we will be able, for the first time next year, to look at digital pictures, for example, through our systems from any of those inspections. So there is a whole range of things like that that will be able to improve the system, even as we go to this more risk-based approach.

Senator MERKLEY. Thank you. It sounds like you have thought it through very thoroughly. I will ask one more question and then turn this over to my colleague, Senator Menendez. I believe that you have proposed rent assistance contracts for less than a full year and I am not sure of the details of that, but I think it is a budgetary maneuver that reduces costs in the short term, but, of course, does not reduce real cost.

There is some concern that because it introduces more uncertainty for the owners of the properties that we will lose some good property owners out of the program. I just raise that for you to have a chance to share your insights on it.

Mr. DONOVAN. This was one of the most difficult decisions that we made in the budget. I was encouraged to see, because of the changes we have made in FHA and the improved modeling and other steps that we have taken, that CBO scored the receipts for FHA at almost \$1.8 billion more than we did in the President's budget.

As a result, in the Senate appropriations bill that was completed last week, they actually were able to reverse that short funding, which we thought was an important step given the additional receipts that were there.

So even though this is something we did propose in the budget, something that, frankly, we think we could implement without interruptions in funding, it would introduce some uncertainty, as you have described, and to the extent that we are able to find additional receipts that could fund this, as the Senate Appropriations Committee has done, we think that would be an important step forward.

Senator MERKLEY. Thank you. My colleague, Senator Menendez.

Senator MENENDEZ. Thank you, Mr. Chairman. Mr. Secretary, thank you for you coming before the Committee, and most importantly, for your service to our country. I appreciate the work you have been doing.

Mr. DONOVAN. Thank you.

Senator MENENDEZ. I just want to visit—it was not what I originally intended to pursue as a line of questions, but just since we are establishing a record here, is it not true that the higher loan

limits are paid for by virtue of the extra amounts we created in the fees?

Mr. DONOVAN. Well, first of all, they represent a very small share of our overall business. Our evidence is that they actually perform somewhat better than smaller loans, so we do not think they introduce a substantial risk to the taxpayer. And as you said correctly, the increased fees that we implemented in our budget do ensure that they are fully—more than fully paid for.

And so, in that sense, this is not a question of taxpayer risk. It is really a question of how we want to look—the finance market of the future to look and do we want to try to encourage private capital to come back into that space for larger loans. But you are absolutely correct.

Senator MENENDEZ. We rarely get 60 votes around here these days, and at a time in which that is a rarity, that is exactly what we achieved in the Senate on preserving the higher loan limits at a particularly still challenging time for the housing market. So I think it made a lot of sense. And it is interesting to know, while FHA has challenges, compared to the GSEs, it has definitely had better underwriting because it has not had the need at this point for a bailout. So it is fundamentally different.

Let me ask you, have you had a chance, or your staff been able to take a look at the Menendez-Boxer discussion draft that we held a Housing Subcommittee on yesterday, which was a very positive one? Which is, of course, the whole question of increasing refinancing opportunities for responsible homeowners. And if so, do you have any initial comments on it?

Mr. DONOVAN. First of all, I would just say thank you for your leadership on this. In my statement—you may have missed it—we did recognize you. I recognized you for your leadership on this, and this is one of the most important things I think we can do in the short term to help the housing market strengthen and recover, and that is recognized by economists across a broad spectrum of positions.

We were particularly encouraged in the way that the bill focuses on expanding the success of HARP. The early results from the changes that we made without legislation are that we are seeing big jumps in refinancing, particularly in States that have the most underwater borrowers. In Florida, for example, we have seen almost a 50 percent increase in refinancing the last few months. In Nevada, 70 percent.

But what is so important about your bill is that we have over 10 million homeowners, the vast majority of them that are above water, and yet, have had barriers to refinancing. And what your bill, most importantly, I think, achieves is to expand the impact that we are having for the most underwater borrowers to those that are above water but have other challenges, other barriers that are stopping them from refinancing.

So we think it is a critically important bill. We think the level of detail, the range of things that you have attacked, barriers that you have attacked there is a very, very strong piece of legislation and we look forward to working with you to get it passed as quickly as possible.

Senator MENENDEZ. Well, thank you, and we will look forward to working with you as well, the refining it. HUD continues to promote mixed use properties and high density as good choices for communities, which I support. Yet, the FHA's condo rules prohibit the purchase of a condominium and a property with more than 25 percent of commercial space.

Can you give me a sense of what is the purpose of the restriction, and does it not run contrary to the new town center model that, you know, we seem to be promoting, that HUD seems to be promoting, that certainly among other elements, livable communities seem to be—the whole focus seems to be in a direction that would create those opportunities, and yet, this seems to work counter to that view.

Mr. DONOVAN. This is a very important point that you raise. We have traditionally, because FHA is a residential insurer, and frankly, our capacity to look at it and understand commercial property has been limited, we have tended to limit the amount of commercial income. And that is not just on the condo side. It is also on the rental side.

We have begun a review of these policies for exactly the reasons that you point out, because we want to make sure that we are encouraging mixed use development, but also, frankly, that we are protecting taxpayers and that we have the capacity to review, and also to make sure that the long-term success of those condos is assured.

This is an area that we have been reviewing our policies. We are in the process of both rewriting rules, making regulatory changes on condominiums, but also expect to issue a mortgagee letter before completing that rulemaking that would make some changes, and this is an area that we are looking at based on your input and concern about this.

Senator MENENDEZ. Great. Finally, if I may, Mr. Chairman? I thank you for that response and I think we are moving there in the right direction. I think that while obviously it is about, you know, residences that we can find the right mix at the end of the day that still meets those missions and gives us an element of Choice Neighborhoods along the way.

I am very concerned about the affordability in housing, particularly in States like New Jersey, that have long had high housing costs, and was disappointed to see that the facts show a severe shortage of affordable housing. And, you know, HUD recently found 7.1 million very low income renter households, had worst case housing needs in 2009, a 20 percent increase from 2007, the largest 2-year increase in the last 25 years.

Among low, very low income renters, only 60 affordable units are available for every 100 renters. And there is a whole host of statistics. Given all of the challenges and the affordability of housing right now, is this not exactly the wrong time to enact the severe cuts to HUD's budget that the House, I see, is proposing? Would that not have even exacerbated the set of circumstances?

Mr. DONOVAN. There is no question, Senator, that we have already had to make difficult decisions these last few years about HUD's budget. We have made it an absolute priority and we have

successfully protected not only every existing resident, but increased the number of families that we can serve.

We are concerned enough about the potential for the sequestration, which is an average of an 8 percent reduction going into effect if we do not get a common sense resolution of our budget. The Ryan budget would go far beyond that and require more than a 20 percent cut, on average, across domestic discretionary programs.

What we are talking about here is potentially, when you look at 5.4 million families that we help at HUD, you are looking at the potential for more than a million families to be at risk of homelessness, to lose their assistance, were those cuts to go into effect. So you are looking at reversing all of the progress that we have made on veterans' homelessness and a range of other areas and seeing increased homelessness instead that would add to the challenges that you described.

So we are very, very concerned, and the President, as you know, has called for a balanced approach where there is shared sacrifice, not sacrificed by those that are the most vulnerable paid for by reductions in taxes and increased benefits to those who least need them.

Senator MENENDEZ. Well, that is not acceptable. It is unacceptable at any given time. It is certainly unacceptable in these times. Mr. Chairman, I would like to have what would have been my opening statement in the record. It includes a whole list of efforts we have made with Senate appropriators signed by dozens of my colleagues expressing priorities for programs at HUD that deserve funding, and that a good share of my colleagues have joined. So if we could include that in the record, I would appreciate it.

Senator MERKLEY. Absolutely, without objection.

Senator MENENDEZ. Thank you, Mr. Secretary, for your service.

Mr. DONOVAN. Thank you, Senator.

Senator MERKLEY. Thank you very much and I appreciate the response, Mr. Secretary, to the work that Senator Menendez and Senator Boxer are doing to try to make the HARP program work for effectively.

I think from the viewpoint of many of us who serve on this Committee, it has been very frustrating to see a very slow process with additional hurdles left in place for loans that are already guaranteed by the U.S. Government for families that would benefit enormously from these lower interest loans and the series of provisions that Senator Menendez and Senator Boxer put forward I wholeheartedly support. Thank you for your good work in that area.

I wanted to turn the conversation a bit because that whole effort involves Fannie, Freddie loans. But we have a lot of loans in America that are not owned by Fannie and Freddie. And so, for those families who are underwater, it is a whole more limited set of options without the additional reforms to HARP.

And it is a bit of a lottery. Folks come in to talk to our case workers and say, I am underwater by this amount. Is there anything I can do? And the first question is, Well, let us look and see if your loan happens to be a Fannie or Freddie loan, because if it is, there is this possibility. FHA loan, there is this possibility. If not, then you are probably out of luck.

Any thoughts on how we can more aggressively assist families who are current on their loans, they have made their payments through these three to 4 years of difficult recession circumstances, they would benefit enormously from lower interest rates, but because they are underwater, the system does not work for them?

Mr. DONOVAN. Senator, it is a terrific question and it is one of the most important things that we can do in the short term to help improve not only the housing market, but the economy more broadly. The average family can benefit by typically \$2,500 to \$3,000 a year through refinancing.

A few things I would say. I do think it is critical, and we have been working closely with you and your team, that we use this opportunity also to help families get back above water, and for the average family, if they shorten the term of their loan and take some of those savings and plow them back into principal reduction, a large majority of families could get back above water in just a few years. And that is an area where I think—as you know, you have been a leader on this issue. That is an important opportunity.

And then outside of Fannie and Freddie loans, we took important steps that will go into effect on June 11th that will dramatically cut the fees for FHA borrowers that are underwater an average of about \$1,000 a year in lower fees.

But finally, and most importantly, there are 3 million families that are in the situation that you described, paying their loans, could benefit substantially from refinancing, but because they have private label security loans or loans that are in the portfolios of the banks, they are stopped from refinancing.

We took a first step on that through the recent settlement that we arrived at, which will require the five largest lenders to begin to refinance some of those borrowers, but we ought to make it universal. The President called for this in his State of the Union address and we have been working closely with some of your colleagues.

I would be hopeful that in the next few weeks, we will see a bill introduced, as a complement to the bill that Senator Menendez has introduced with Senator Boxer, that would allow a refinancing for those borrowers as well along the lines that the President proposed in his State of the Union address. That is a critical next step that we could take on this.

Senator MERKLEY. Thank you and I appreciate the dialog with the Administration on this challenge. We are probably about half-way through the foreclosure crisis, so there is still a lot of families, a lot of time in which changes now could be of enormous help in the next several years.

One of the things that I have puzzled over is that if you pencil out a fund based on a spread between the cost of funds and, say, 5 percent mortgages, throw in some risk transfer fees and some personal insurance fees and do a detailed spreadsheet as I and my team have done, with the kind of center of the road assumptions, the fund is solvent in terms of being able to refinance these mortgages.

But the challenge is that the source of funds has to be 2 percent funds to have a 3 percent spread to a 5 percent mortgage on the collateralized portion of the loan package. And that only happens

with a Federal guarantee and that requires legislation and it requires bipartisan collaboration that we have yet to develop, but I think we need to keep working on.

Just as I look at your budget, I am looking at the \$400 billion in loan guarantee authority for the Mutual Mortgage Insurance Fund. The similar concept of the Federal guarantee would give us that ability to access the low interest funds available in the market today to create this kind of solvency for a fund that would serve the private label security's refinancing and be able to cut through the complexity of voluntary programs, if you will, where the current mortgage holder has all the leverage and the family does not.

So I look forward to continuing to work with you on that.

Mr. DONOVAN. Completely agree, Senator, and I do think you are absolutely right, that the path to do this does require legislation, is to use a Federal guarantee like FHA to be able to do that. But there are also ways that we can ensure that that cost is minimized. One of the important steps that we could take, which would also achieve principal reduction, would be to require that whoever holds that mortgage takes some amount of write-down before that loan is transferred and refinanced onto the books.

The truth is, that is money they are not going to recover at any point now given the likely default rates on those loans, and it is something that would provide the ability for that homeowner to get back above water more quickly. So we think that there are sort of design parameters in the way that this could be put together that both help the homeowner, limit the cost to the taxpayer, and ensure a faster recovery of the housing market.

Senator MERKLEY. Yes. And you used the term write-down and I used the term risk transfer fee, which are essentially the same concept; that is, if I own a portfolio of loans and I know that there is a good chance a bunch of them will go under and they are uncollateralized or partially uncollateralized, then at a certain write-down, I am happy to get back a substantial percentage on those loans, rather than bear the risk of much higher losses in the existing marketplace.

And I think there is some substantial potential of finding that sweet spot that is a reasonable deal in that regard. You mentioned earlier the accelerated or compressed timeline for mortgage, and this is something we have been working on with the Administration in terms of people being able to refinance, say, into a 15-year loan, keep much the similar levels of payments, and thereby get out from being underwater much more quickly than they would under a 30-year loan.

There is kind of two different models here, and I am just wondering if you have done any modeling of the impact? Because under that model, because people get out from being underwater much more quickly, you reduce the foreclosure risk in that sense of families, when they are out from underwater, will be able to refinance. They see a vision to where they will finally have equity in their houses and that keeps them in the house.

The alternative is to have the longer period of loans and use the subsidy to reduce the interest rates, and by reducing the monthly payments, you now create less risk of financial default and less risk of strategic default because you narrow the gap with rental

payments. So you have a different set of incentives that reduce the foreclosure risk.

And I am just wondering if there has been any sort of an internal analysis comparing those two strategies as to their effectiveness in addressing foreclosure risk.

Mr. DONOVAN. We have done a fair amount of analysis on this. The truth is that because the historical data on what the likely default rates are when someone is deeply underwater is limited. You have to go back a long way, as you know, to find a comparable crisis that we have been through.

There is a lot of debate about what the likely default rates are and how much of that is derived from payment reduction versus principal reduction. And so, we have done a lot of modeling about that. Our best answer on this is, first of all, principal reduction matters and it is something, as you know, that we have done a lot of work on through the settlement, through our changes to HAMP to try to encourage.

But we think that the best way to do this is to provide incentives for principal reduction. We think most people are likely to make a choice that is a shorter term choice and to choose payment reduction rather than principal reduction even if principal reduction might have some advantages for them over the longer term, because it is just harder to know when you are going to have a medical emergency, when you are going to need to repair that roof, whatever, and that is where the principal reduction shocks are so important.

So our view is, leave it up to the consumer. Let them choose, but provide some incentives for how they balance that, because frankly, it is going to be different in different cases, and the best outcome is to leave choice to have both, but to provide some incentives. Fannie Mae and Freddie Mac are already doing that by reducing the fees for refinancing if you choose to shorten the term.

We think, as we have been discussing with you, there are other ways to do that that can increase that incentive and tip the balance more toward that long-term view of principal reduction which we think is important.

Senator MERKLEY. Thank you very much. I am just going to check with staff to see if any other Members are on the verge of arriving. No? I am always heartened by your testimony and your comprehensive understanding of the housing issues we are facing, which in this world of enormous complexity, is essential.

And so, thank you. Thank you for your testimony. Thank you for your thoughtful work on finding a path forward that will empower families through affordable, quality housing, and empower families through restoring the path of home ownership as a part of the American dream. Thank you.

Mr. DONOVAN. Thank you, Senator. Thank you for your leadership and partnership on so many of these issues. It is a pleasure to work with you.

Senator MERKLEY. The Committee stands adjourned.

[Whereupon, at 11:08 a.m., the hearing was adjourned.]

[Prepared statements and additional material supplied for the record follow:]

PREPARED STATEMENT OF CHAIRMAN TIM JOHNSON

I am pleased to once again welcome HUD Secretary Shaun Donovan to the Committee to discuss the Administration's budget request and HUD's legislative agenda.

Secretary Donovan, while we have seen economic improvement since your last appearance, too many of our families and our State and local government partners continue to struggle. HUD studies have shown troubling increases in both "worst case" housing needs and family homelessness during this economic downturn.

As our need for affordable housing has risen, HUD and local providers face increasing difficulties in preserving the resources we have, due to aging buildings and expiring affordability contracts.

Meanwhile, State and local governments are cutting services and job-creating investments.

Far too many American families and communities still face the threat of foreclosure, and millions more have seen their property values fall in a fragile housing market.

And as we discussed with you a few weeks ago, more needs to be done to remove barriers to the recovery of the housing market and the broader economy. Although we are focusing on the legislative proposals in HUD's budget request today, we plan to have you back to continue that housing market discussion in the next several weeks.

As the country faces these challenges, the Federal Government must ensure that we make wise investments and preserve important programs that help those most in need. At the same time, we must be mindful of our budget constraints and ensure that we get the most value for our dollar.

I understand that you have made a number of hard choices in your FY2013 budget, cutting or freezing funding for several programs that you otherwise support in order to meet fiscal goals.

But your budget also contains a number of proposals intended to increase HUD's effectiveness. These include proposals to:

- streamline our public housing and Section 8 programs to make them more effective for families and local administrators,
- help create and preserve public and assisted housing, and
- empower local communities as they plan for their futures.

In addition, you have also focused on strengthening the management and financial standing of the FHA insurance programs. While FHA is providing critical countercyclical financing to the housing market, it is burdened by the legacy of loans made prior to 2009 and needs careful management.

Although we have recently heard some dismiss the importance of HUD's existence, the Department administers programs that aim to provide access to quality, affordable, and safe housing for homeowners and renters. These programs have provided a lifeline to millions of the most vulnerable Americans. They have also bolstered the American housing market as it threatened to grind to a halt. In today's economy they are more important than ever.

PREPARED STATEMENT OF SENATOR ROBERT MENENDEZ

Mr. Chairman, thank you for holding this important hearing, and Mr. Secretary, thank you for appearing today and I look forward to your testimony. As Housing Subcommittee Chairman, I hear on an almost daily basis about the challenges that HUD faces. On top of the preexisting challenge of housing affordability across the Nation, especially in high cost States like New Jersey, we now have both foreclosures and a housing market that is just beginning to recover. Under these challenging circumstances, I appreciate HUD's work to develop a budget to address the Nation's housing needs and improve our economy recovery.

I have personally written four letters to Senate appropriators signed by dozens of my colleagues expressing my priorities for programs at HUD that deserve funding and I have signed onto many more. These include housing counseling, which in my view is critical to stopping further foreclosures and providing struggling families with the peace of mind that they have someone to guide them through their options. It also includes Sustainable Communities grants, a letter I led with Senator Landrieu that got a quarter of all Senators on it, which urges funding for locally and regionally driven planning, which is key to economic development, smart growth, and creating jobs. It includes the Choice Neighborhoods Initiative, authorizing legislation for which I have introduced in the Senate, that will provide grants to transform blighted neighborhoods and build upon the successes of HOPE VI while

ushering in a new and more comprehensive model of community development. And it includes fully funding Project Based Section 8 contracts in an area where I think short-funding them would be a mistake that would push costs into future years.

On perhaps the most important housing issue of our time, foreclosures, I hope that we can work together to keep people in their homes, to provide good options for those people we can't keep in their homes, and to convert the vacant and foreclosed properties that are blighting our neighborhoods into viable affordable rentals or new homeownership opportunities. I have also been working on a bill with Senator Boxer that we plan to introduce next month to help homeowners with GSE loans to refinance more easily by removing barriers that are preventing them from taking advantage of historically low interest rates. Middle class families could save significant amounts of money every month, helping the economic recovery and reducing foreclosures, if we can make these important changes. With that, I look forward to your testimony.

PREPARED STATEMENT OF SHAUN DONOVAN

SECRETARY, DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

APRIL 26, 2012

Chairman Johnson, Ranking Member Shelby, and Members of the Committee, thank you for the opportunity to testify today regarding the fiscal year 2013 Budget for the Department of Housing and Urban Development, *Housing and Communities Built to Last*.

I appear before you to discuss this Budget in an economic environment that is significantly improved from when the President took office. An economy that was shrinking is growing again—and instead of rapid job loss, more than 3.2 million new private sector jobs have been created in the last 22 months, and national unemployment has fallen to a near 3-year low. But we know there's still more work to be done to ensure that America can create an economy built to last—with good jobs that pay well and security for the middle class.

HUD's Fiscal Year 2013 Budget tackles these challenges head on: by helping responsible families at risk of losing their homes; by providing quality affordable rental housing to some of our Nation's most vulnerable families; by transforming neighborhoods of poverty to ensure we are not leaving a whole generation of our children behind in our poorest communities; by rebuilding the national resource that is our federally assisted public housing stock and ensuring that its tenants are part of the mobile, skilled workforce our new global economy requires; and by leveraging private sector investments in communities to create jobs and generate the economic growth our country needs. Indeed, this Budget will support hundreds of thousands of jobs both directly and indirectly, serving as a powerful engine for job creation in the places that need them most.

Our Budget provides \$44.8 billion for HUD programs, an increase of \$1.4 billion, or 3.2 percent, above fiscal year 2012. This program funding level (*i.e.*, gross budget authority) is offset by \$9.4 billion in projected FHA and Ginnie Mae receipts, leaving net budget authority of \$35.4 billion, or 7.3 percent below the fiscal year 2012 enacted level of \$38.2 billion. The Budget reflects the reality that we cannot create an economy built to last without taking responsibility for our deficit. The caps set by the Budget Control Act of 2011 promise over \$907 billion in total discretionary cuts over the next 10 years, and every department shares a responsibility to make tough cuts so there's room for investments to speed economic growth. To maintain our commitment to fiscal discipline, this Budget invests in improving the infrastructure and technological systems critical to reforming the Government to be leaner, more transparent, and ready for the 21st century. Moreover, by providing a menu of key reforms—including to some of our largest rental assistance programs—this Budget simplifies and aligns policies to be more efficient and effective, while saving the taxpayer hundreds of millions of dollars. To be clear, not all of the reforms we are proposing are easy. Indeed, this Budget makes tough choices in order to contribute to deficit reduction in a substantial way.

Of course, as several Members of this Committee who also serve on the Appropriations Committee are well aware, last week the Appropriations Committee approved its version of the FY2013 Transportation–HUD funding bill. And, just as we had to make many tough decisions in developing our budget, so the Members of the Appropriations Committee had to make many of the same kinds of calculations in drafting and approving their FY2013 T–HUD legislation. The passage of that bill is an important step in the 2013 funding process, but there is still a long way to go. HUD is in the process of reviewing the bill, but from an overall perspective, I

am very appreciative of the Committee's work under extremely tight fiscal constraints to fund a wide range of key priorities, and I look forward to continued discussions about funding levels with the Members of both the Appropriations Committee and this Committee.

Responding to the Crisis

Much has happened in the 3 years since HUD submitted its fiscal year 2010 Budget. Only weeks before the Bush Administration and Congress had taken dramatic steps to prevent the financial meltdown, the Nation was losing 753,000 jobs a month, our economy had shed jobs for 22 straight months, house prices had declined for 30 straight months, and consumer confidence had fallen to a 40-year low.

In the face of an economic crisis that experts across the political spectrum predicted could turn into the next Great Depression, the Obama administration had no choice but to take aggressive steps. The Federal Reserve and Treasury helped keep mortgage interest rates at record lows. To provide access to these low interest rates, the Administration supported Fannie Mae and Freddie Mac, while HUD's Federal Housing Administration (FHA) stepped in to play a critical role in helping to stabilize the housing market. The Administration proposed, and Congress enacted, a homebuyer tax credit to spur demand in the devastated housing sector. And we took steps to help families keep their homes—through mortgage modifications and FHA's loss mitigation efforts.

The results of these extraordinary but necessary actions are clear. Since April of 2009, more than 5.6 million borrowers have received mortgage modifications with affordable monthly payments, nearly 14 million families have been able to refinance their homes, and foreclosures are down by nearly 50 percent.

Earlier this month, the U.S. District Court for the District of Columbia approved the settlement that the Justice Department had reached with the Nation's largest mortgage servicers over mortgage loan servicing and foreclosure abuses. This historic settlement, negotiated with the Obama administration and a bipartisan coalition of attorneys general from 49 States, provides at least \$25 billion on behalf of American homeowners.

The product of 16 months of intensive negotiations between the five banks and an unprecedented coalition of State attorneys general and Federal agencies, including the Departments of Justice, Treasury, and HUD, that crossed partisan lines, the settlement helps families keep their homes and reduces the shadow inventory by providing relief to homeowners, in part by forcing banks to reduce the principal balance on many loans, refinancing loans for "underwater" borrowers. In addition the settlement will pay billions of dollars to States to help stabilize communities and cover the costs associated with the foreclosure crisis and consumers who have been foreclosed upon.

Creating an Economy Built to Last

Now, having prevented our economy from falling into a second Great Depression, the Administration is focused on ensuring that we create an economy built to last, which makes strategic investments in our communities but also takes responsibility for our deficit. For HUD, that meant using four core principles to develop our budget:

1. Continuing to provide critical support for the housing market while bringing private capital back into the market;
2. Protecting current residents—and improving the programs that serve them;
3. Continuing progress on signature initiatives to provide communities with the tools they need to speed economic growth; and
4. Reducing regulatory burdens and increasing efficiency—including streamlining, simplifying, and reforming current programs.

As such, the Department's Budget for fiscal year 2013 follows the roadmap the President has laid out for jumpstarting our economy through educating, innovating, and building—by targeting our investments to the families and geographies that need them the most, and putting American back to work. Specifically, this Budget helps:

Give Hard-Working, Responsible Americans a Fair Shot. Not only is there more work to do to ensure that the economic security of middle class Americans does not continue to erode, we have a responsibility to directly address the challenges facing the most vulnerable Americans. This Budget does so by serving over 5.4 million families—the majority of whom are extremely low-income—in our rental assistance programs; and by supporting the Choice Neighborhoods initiative, which provides communities with the innovative tools they need to revitalize neighborhoods of con-

centrated poverty—efforts that helped communities leverage over \$1.6 billion of private funding last year alone.

Ensure Every American Plays by the Same Rules. Put simply, we cannot settle for a country where a shrinking number of people do really well, while more Americans barely get by. There are still millions of Americans who have worked hard, acted responsibly, and made their mortgage payments on time—who, because their homes are worth less than they owe on their mortgage, can't take advantage of today's historically low interest rates and are facing real economic insecurity. In addition to steps taken by the Administration to combat predatory lending practices (discussed in depth below), this budget provides critical funding for the Housing Counseling program (\$55 million), which will directly help over 185,000 low-to-moderate-income families in improving access to quality affordable housing, expanding home ownership opportunities, and preserving homeownership through foreclosure mitigation; as well as providing training to over 4,800 counselors nationwide.

This Budget also recognizes that we can no longer tolerate a federally supported rental housing system that is “separate and unequal”—one which expects public housing authorities (PHAs) to house over 3 million families, subjecting them to overly burdensome regulation while denying them access to private capital available to virtually every other form of rental housing. To bring our rental housing system into the 21st century and begin addressing the \$26 billion in public housing capital needs, this Budget includes proposals that would increase PHA flexibility to fund critical supportive services for assisted families while also moving them toward mainstream real estate financing and management practices through the consolidation of outmoded funding streams. At the same time, by implementing the second year of our Rental Assistance Demonstration, the Budget will use existing resources to ensure that up to 60,000 units funded through our public housing and the so-called “orphan programs” can leverage debt to access private capital and preserve affordable housing.

Create New Jobs in America To Discourage Outsourcing. In addition to the hundreds of thousands of jobs that this budget creates both directly and indirectly, it makes an essential contribution to the Administration's broader effort to discourage outsourcing and encourage “insourcing.” Specifically, attracting new businesses to our shores depends on urban, suburban and rural areas that feature more housing and transportation choices, homes that are near jobs, and transportation networks that move goods and people efficiently—which is why this budget restores funding for Sustainable Housing and Communities, which embodies the President's commitment to being a new kind of Federal partner to regions, States, and localities as they tackle planning and economic development challenges for the 21st century.

Of course, smart planning requires sustained follow-through. That is why HUD is committed to ensuring that its core community and housing development work contributes to more and better transportation choices; promotes equitable, affordable housing; and aligns Federal policies and funding to remove barriers to local collaboration. Accordingly, we will continue to make critical investments in programs such as the Community Development Block Grant and Native American Housing Block Grant. In particular, CDBG is an important catalyst for economic growth—helping leaders around the country bring retail businesses to their communities, forge innovative partnerships and rebuild their economies.

Reform Government So That It's Leaner, Smarter, More Transparent, and Ready for the 21st Century. It is clear that an economy built to last requires a Federal Government that is efficient, streamlined, and transparent. As such, the Budget proposes reforms to HUD rental assistance programs that would save over \$500 million in fiscal year 2013 without reducing the number of families served—by streamlining programs and reforming policies. Moreover, this Budget once again calls for the flexible use of resources through the Transformation Initiative, which the Department needs to invest in technical assistance to build local capacity to safeguard and effectively invest taxpayer dollars; conduct innovative research, evaluations of program initiatives and demonstration programs so we can fund what works and stop funding what doesn't; and upgrade the IT infrastructure that tracks and monitors our programs.

Moving the Needle, Making Substantial Progress

In short, this Budget will achieve substantial results not only for vulnerable, low-income Americans but also for hard-hit local and State economies across the country. Its carefully targeted investments will enable HUD programs to serve millions of families in thousands of communities nationwide; to help create an economy built on American manufacturing, American energy, skills for American workers, and a renewal of American values.

Consistent with the previous 2 years, HUD's fiscal year 2013 Budget is structured around the five overarching goals the Department adopted in its Strategic Plan 2010–2015. These goals reflect the Department's—and my—commitment to “moving the needle” on some of the most fundamental challenges facing America as we create an economy built to last. Indeed, every month, I hold HUDStat meetings on one or more of these goals, to assess progress and troubleshoot problems in order to: (1) ensure that HUD is as streamlined and effective as possible in the way that we administer our own programs and partner with other Federal agencies; and (2) hold our grantees accountable for their expenditure of taxpayers' hard-earned dollars.

Goal 1: Strengthen the Nation's Housing Market To Bolster the Economy and Protect Consumers

This Administration entered office confronting the worst economic crisis since the Great Depression—as mortgages were sold to people who couldn't afford or understand them, while banks packaged them into complex securities that they made huge bets on—and bonuses with—other people's money. And while the largest factors contributing to this crisis were market driven, the American people have turned to Congress and the Administration for leadership and action in righting our Nation's housing market. HUD remains firmly committed to working together with communities and individuals to cope with these unprecedented challenges.

Responding to the Market Disruption

HUD remains firmly committed to working together with communities and individuals to cope with these unprecedented challenges. The Federal Housing Administration (FHA) and Government National Mortgage Association (GNMA) continue to have a significant impact on the Nation's economic recovery. The activities of the Federal Government are critical to both supporting the housing market in the short term and providing access to home ownership opportunities over the long term, while minimizing the risk to taxpayers. FHA has stepped up to face these unprecedented challenges, playing an important countercyclical role in the housing market today.

In Fiscal year 2013, HUD is requesting \$400 billion in loan guarantee authority for the Mutual Mortgage Insurance Fund, which will provide an estimated 0.8 million single-family mortgages (at a projected \$149 billion in loan volume) and \$25 billion in loan guarantee authority for the General and Special Risk Insurance Fund, which will provide an estimated 156,000 units in multifamily housing properties and an estimated 80,600 beds in healthcare facilities. The need for this investment is clear as FHA has played a critical role in stabilizing the Nation's mortgage market. At a time when liquidity and access were needed most in the housing market to facilitate the recovery of the broader economy, FHA stepped in to ensure that mortgage capital continued to flow. However, FHA's expanded role is and should be temporary. FHA's loan volume has declined 34 percent from its peak in 2009, and its market share is decreasing for the first time since 2006, reflecting private capital's return to the market. FHA is particularly important to borrowers that the conventional market does not adequately serve, including qualified borrowers who would otherwise be shut out of the mortgage market. Fully 60 percent of all African American and Hispanic homebuyers using mortgages rely upon FHA financing and over 30 percent of all FHA-insured homebuyers are minorities. Over half of all African Americans who purchased a home last year and 45 percent of Hispanics did so with FHA financing.

Redoubling Efforts To Keep Homeowners in Their Homes

While there is work still to be done, HUD is proud of the progress this Administration has made in tackling ongoing foreclosure challenges. Between April 2009 and December 2011, more than 5.6 million mortgage modifications were started—including more than 1.7 million HAMP trial modification starts and nearly 1.2 million FHA loss mitigation and early delinquency interventions. In addition, to date, more than 930,000 HAMP trial modifications have resulted in permanent modifications—saving these households an estimated \$10.5 billion in monthly mortgage payments.

As part of the Administration's commitment to help responsible homeowners stay in their homes, we have actively sought to use our current programs and authorities to make home ownership sustainable for millions of American families. Examples of our efforts include:

- *Streamline Refinance*—An option that allows borrowers with FHA-insured loans who are current on their mortgage to refinance into a new FHA-insured loan at today's low interest rates without requiring additional underwriting, permitting these borrowers to reduce their mortgage payments. This program benefits

current FHA borrowers—particularly those whose loan value may exceed the current value of their home—and by lowering a borrower's payment, also reduces risk to FHA. Effective on June 11, 2012, borrowers whose FHA insured loans were endorsed for insurance before June 1, 2009, will be able to refinance their current FHA insured mortgage at an annual mortgage insurance premium (MIP) of 0.55 percent and an upfront MIP of 0.01 percent. This will allow these borrowers to benefit from today's lower interest rates and lower their monthly payments. And, because we see potential for more widespread use of this product, FHA is making changes to the way in which streamline refinance loans are displayed in the Neighborhood Watch Early Warning System (Neighborhood Watch) to reduce lender concern about the potential impact associated with taking responsibility for loans they have not underwritten, making them more willing to offer these loans to borrowers who are current on mortgages already insured by FHA.

- *National First Look Program*—A partnership between HUD, the National Community Stabilization Trust and large financial institutions that offers Neighborhood Stabilization Program grantees an exclusive 12–14 day window to evaluate and bid on foreclosed properties.
- *Short Refinance Option*—In 2010, FHA made available an option that offers underwater non-FHA borrowers, who are current on their existing mortgage and whose lenders agree to write off at least 10 percent of the unpaid principal balance of the first mortgage, the opportunity to refinance into a new FHA-insured mortgage.

Finally, as another critical component to the recovery of the housing market, the President has also put forward a homeowners Bill of Rights—a single, straightforward set of commonsense rules that families can count on when they are shopping for a mortgage, including the right to a new, simple, clear form for new buyers that gives people confidence when they are making the most important financial decision of their lives. And those rights shouldn't end when homeowners get the keys to their new home. When Americans lose their job or have a medical emergency, they should know that when they call their lender, that call will be answered and that their home won't be sold in foreclosure at the same time they are filling out paperwork to get help.

Strengthening FHA and Paving the Way for Private Capital To Return

The books of business in the few years before 2009 have largely driven the high number of claims to the Mutual Mortgage Insurance Fund (MMI Fund). This was a result of overall economic and unemployment trends as well as by the combined effects of poor underwriting, unscrupulous and noncompliant practices on the part of lenders, and a seller-funded downpayment assistance program that allowed many borrowers to obtain mortgages without a meaningful downpayment. As a result, the books of business FHA insured prior to the start of this Administration have severely impacted the health of FHA's MMI Fund. But, while there is still a great deal of work to do, because of our efforts I believe that FHA continues to move in a more positive direction, and that the long term outlooks for FHA and the MMI Fund are better than they were in 2009.

The change in trajectory in the performance of FHA-insured loans is no accident. Immediately upon taking office, this Administration acted quickly and aggressively to protect FHA's MMI Fund and to ensure its long term viability. We have taken more steps since January 2009 to eliminate unnecessary credit risk and assure strong premium revenue flows in the future than any Administration in FHA history. Indeed, FHA's gains since 2009 are the result of a three-part strategy: systematic tightening of risk controls, increased premiums to stabilize near-term finances and expanded usage of loss mitigation workout assistance to avoid unnecessary claims.

And, we continue to take steps to further strengthen the Fund. In the 2013 Budget we announced a 10 bps annual premium increase on all FHA insured loans to comply with the requirement passed by Congress late last year, as well as an additional 25 bps annual premium increase on "jumbo" loans making the total increase for these larger loans 35 bps. And recently, we announced a series of premium changes that will further increase receipts to FHA by \$1,480 million in fiscal years 2012 and 2013, beyond the receipts already included in the President's budget submission. In addition, we have also taken significant additional steps to increase accountability for FHA lenders. Via a final rule published recently, we clarified the bases upon which FHA will require indemnification from lenders participating in our Lender Insurance program, making clear the rules of the road for lenders and giving FHA a solid basis upon which to require indemnification by lenders for viola-

tions of FHA guidelines. And we continue to seek expanded authority via legislation that will further enable us to protect the MMI Fund from unnecessary and inappropriate losses associated with lenders who violate our requirements.

The next in a series of steps we have pursued to hold lenders accountable for their actions are the recently announced settlements with some of America's largest lenders. Through these settlements, FHA will receive over \$900 million compensation for losses associated with loans originated outside of FHA requirements, or for which FHA's servicing requirements were violated.

Despite the unprecedented efforts of this Administration to alter the trajectory of FHA, considerable risks remain. The FHA MMI Fund has two components: the Financing Account, which holds enough money to accommodate all expected losses on FHA's insured MMI portfolio; and the Capital Reserve Account, which is required to hold an additional amount equal to 2 percent of the insurance in force. Since 2009, the Fund's capital reserve ratio has been below that 2 percent level.

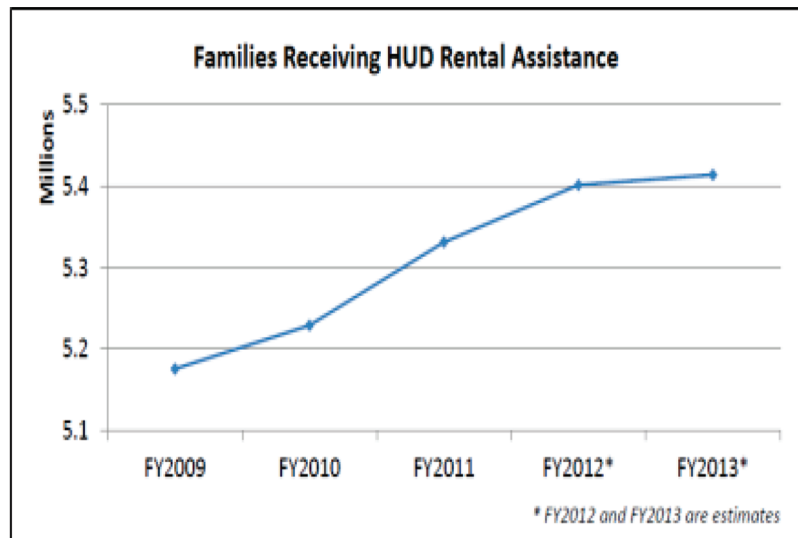
The President's Budget always includes estimates regarding the status of the Capital Reserve at the end of the current fiscal year. This prediction is based on estimates and projections of future economic conditions, including house prices and other economic factors which may or may not come to pass. The 2013 Budget estimate for the FHA Capital Reserve account did not include added revenue from the recently announced additional premium increases or the proceeds from FHA-approved lenders under the terms of the mortgage settlements. With these additional revenues accounted for, the Capital Reserve is estimated to have sufficient balances to cover all estimated losses without triggering a mandatory appropriation under the Federal Credit Reform Act. Moreover, the Budget estimates that FHA will add an additional \$8 billion to the MMI Capital Reserve Account in 2013, and return to the congressionally mandated capital reserve ratio of 2 percent by 2015.

The 2013 Budget also includes premium increases for FHA's General Insurance and Special Risk Insurance programs that serve market rate multifamily properties and healthcare facilities. These changes are intended to ensure that FHA products are priced appropriately to compensate for FHA's risk and encourage the return of private capital to our mortgage markets. The proposed increases range from 5 basis points for 223(a)(7) refinancing to 20 basis points for 221(d)(4) new construction or rehabilitation activity. Premiums for affordable housing projects (such as those with HUD rental subsidies and low income housing tax credits, as well as those insured under FHA risk-sharing programs) will not be increased.

With the proposed premium increases, FHA Multifamily and Healthcare loans will be priced more appropriately to facilitate the return of private capital, while at the same time continuing to ensure sufficient levels of available capital in these sectors. The increase in premiums also reflect new realities—the Multifamily annual book of business is five times greater than it was just 3 years ago, and the risk profile has changed dramatically. FHA's multifamily apartment portfolio is now more than 50 percent market rate, which adds a new component of risk, and a need to take steps to ensure the future viability of the portfolio. With interest rates at a record low the existing portfolio loans could remain in FHA's portfolio longer than the average time frames and will need to be managed prudently. On April 10, FHA published the proposed increase in the Federal Register for a 30-day comment period.

Goal 2: Meet the Need for Quality, Affordable Rental Homes

In an era when more than one-third of all American families rent their homes and nearly 7 million unassisted families with very low incomes spend more than 50 percent of their income on rent, it remains more important than ever to provide a sufficient supply of affordable rental homes for low-income families—particularly since, in many communities affordable rental housing does not exist without public support. HUD's fiscal year 2013 Budget maintains HUD's core commitments to providing rental assistance to some of our country's most vulnerable households as well as distributing housing, infrastructure, and economic development funding to States and communities to address their unique needs. Overall, 83 percent of HUD's total FY2013 budget authority requested will provide rental assistance to over 5.4 million residents of HUD-subsidized housing, including public housing and HUD grants to homeless assistance programs. And, I am proud to say that, despite an era of challenging budgets, we have increased the number of families served through our rental assistance programs every year.



Detailed data shows how vulnerable these families are to the economic downturn. In HUD's core rental assistance programs, including TBRA, Public Housing and PBRA: 72 percent of families are extremely low-income (below 30 percent of area median income) and an additional 20 percent are very low-income (below 50 percent of area median income). The devastating effect of the tough economic environment on the housing circumstances of poor Americans was underscored last year, when HUD released its *Worst Case Housing Needs* study results. HUD defines "worst case needs" as: renters with very low incomes who do not receive Government housing assistance and who either pay more than half their income for rent, live in severely inadequate conditions, or both. The report showed an increase of 20 percent in worst case needs renters between 2007 and 2009. This is the largest increase in worst case housing needs over a 2-year period in the quarter-century history of the survey, and caps an increase of 42 percent since 2001. The need for HUD investments in this area is clear.

Preserving Affordable Housing Opportunities in HUD's Largest Programs

This budget proposed a total of \$19.07 billion for HUD's Section 8 Tenant-Based Rental Assistance (TBRA) program, which is the Nation's largest and preeminent rental assistance program for low-income families. For over 35 years it has served as a cost-effective means for delivering safe and affordable housing in the private market. The proposed 2013 funding level is expected to assist approximately 2.2 million families by renewing existing vouchers and issuing new incremental vouchers to homeless veterans.

The Budget also provides a total of \$6.6 billion to operate public housing and modernize its aging physical assets through the Public Housing Operating (\$4.5 billion) and Capital (\$2.07 billion) funds, a critical investment that will help 1.1 million extremely low- to low-income households obtain or retain housing. Similarly, through a \$8.7 billion request in funding for the Project Based Rental Assistance (PBRA) program, the Department will provide rental assistance funding to privately owned multifamily rental housing projects to serve over 1.2 million families nationwide. This PBRA request represents a \$640 million decrease from the FY2012 enacted level, which is generated by providing less than 12 months of funding upfront on some PBRA contracts, and is not projected to reduce or delay payments to landlords or impact the number of families served by the program. Nonetheless, this was a difficult choice, and not one that the Administration would choose to implement in a less austere fiscal environment, and I would note that the Appropriations Committee has chosen to increase the budget request for this program by more than \$1 billion.

Reducing Administrative Burdens and Increasing Efficiency

The Budget recognizes the need to simplify, align, and reform programs to reduce administrative burdens and increase efficiency across programs. It also includes a menu of reforms to HUD rental assistance programs that save over \$500 million in 2013 without reducing the number of families served:

Streamlining the Public Housing Operating and Capital Funds

To both simplify the program and reduce the administrative burden on State and local public housing authorities, the Budget proposes to combine the separate Operating and Capital funds into a single Public Housing subsidy stream. As a first step toward consolidation, the Budget provides all PHAs with full flexibility to use their operating and capital funds for any eligible capital or operating expense.

Providing Flexibility for PHAs To Improve Supportive Services for Assisted Households

The Budget proposes streamlining and flexibility measures to help PHAs improve supportive services for assisted families. The Family Self-Sufficiency (FSS) program will be consolidated and aligned to enable PHAs to more uniformly serve both TBRA and Public Housing residents. This program, which the Budget also expands to residents of PBRA housing, aims to connect residents to resources and services to find and retain jobs that lead to economic independence and self-sufficiency. In addition, the Budget authorizes PHAs to use a portion of their Public Housing and Housing Voucher funding to augment case management and supportive services provided through FSS or provide other supportive services to increase opportunities for residents.

Aligning Minimum Rent Policy Across Programs

The Budget aligns policy across rental assistance programs and proposes to reduce costs by increasing the minimum rent to \$75 per month for all HUD-assisted households, which is comparable to the minimum rent enacted in 1998, adjusted for inflation. This was a difficult choice, and one we would not have made under other budgetary circumstances. Recognizing the potential burden that this higher minimum rent may impose, the Budget proposes to maintain the current exemption for families facing financial hardship, and we are exploring ways of strengthening those provisions. In addition, the House Financial Services Committee is currently considering legislation that would make changes in existing requirements relating to both the hardship exemptions and the overall minimum rent requirements. We are reviewing those proposals, and we look forward to discussing that set of issues with the Members of this Committee should the Committee consider similar legislation.

Saving Costs in Project Based Rental Assistance

Within the PBRA program, cost savings measures include: improving the oversight of market rent studies used to set subsidy payment levels, capping annual subsidy increases for certain properties, and using excess reserves to offset HUD payments to landlords.

Simplifying, Aligning, and Reducing Administrative Burdens

This Budget request reduces costs by simplifying administration of the medical expense deduction, better targeting rental assistance to the working poor in rural areas, setting Public Housing flat rents closer to market levels, and changes mandatory PHA inspections of units from annually to every 2 years.

Many of these provisions are part of the Affordable Housing and Self-Sufficiency Improvement Act of 2012, which is under consideration by the House Financial Services Committee. The Department looks forward to working with the Banking Committee on this proposed legislation.

Rebuilding Our Nation's Affordable Housing Stock

Over the last 75 years, the Federal Government has invested billions of dollars in the development and maintenance of public and multifamily housing, which serve as crucial resources for some of our country's most vulnerable families. Despite this sizable Federal investment and the great demand for deeply affordable rental housing, we continue to see a decline in the number of available affordable housing units. Over the last decade, the public housing stock has shrunk at a rate of 10,000 units per year, largely due to a growing backlog of unmet capital needs, estimated at \$26 billion. To address these challenges, HUD's 2012 Appropriations Act authorized the "Rental Assistance Demonstration" (RAD) to test new preservation tools for its assisted housing stock allowing for Public Housing and Moderate Rehabilitation (Mod Rehab) properties to convert to long-term Section 8 rental assistance contracts (capped at 60,000 units of converted assistance); and Rent Supplement (Rent Supp),

Rental Assistance Payment (RAP), and Mod Rehab properties, upon contract expiration or termination, to convert tenant protection vouchers to project-based vouchers. Unlike their current forms of assistance, these contracts offer a rental subsidy platform that allows PHAs and owners to leverage current Federal appropriations with other private and public capital to finance much needed rehabilitation and preserve the assets as affordable housing. A notice partially implementing RAD and seeking public comment was published in the Federal Register on March 9th.

RAD is a limited demonstration, which will be evaluated to assess the success of these approaches in preserving affordable housing. Since HUD will use funding appropriated for existing programs for implementation and anticipates strong interest in RAD, the 2013 Budget includes a request to exempt Mod Rehab from the 60,000 unit cap on projects that could convert assistance, at no cost, to long-term Section 8 rental assistance contracts. If enacted, the 60,000 unit cap would apply to public housing conversions alone, while the number of Mod Rehab conversions would not be constrained.

Funding What Works: Jobs-Plus

The Budget expands the Jobs-Plus demonstration to provide public housing residents with job search assistance and employment related services:

In FY2013, HUD is proposing that up to \$50 million of Public Housing capital funds may be targeted to Jobs-Plus competitive grants to fund scaled-up implementation of the Jobs-Plus model—a successful, evidence-based strategy to increase the employment opportunities and earnings of public housing residents through a three-tiered program of employment services, rent-based work incentives, and community support for work. This investment will increase employment opportunities for over 30,000 Public Housing residents, by helping them secure and retain employment, keep more of the income they earn, and receive the full benefit of work incentives such as the Earned Income Tax Credit (EITC). A randomized experiment evaluation of the Jobs-Plus model in three demographically diverse sites found that, on average, participants had an additional \$1,300 in earnings every year from 2000 to 2006—and these earning increases were durable beyond the period of the intervention. Jobs-Plus competitive grants will scale up this proven model by targeting resources to high-capacity PHAs and housing developments with enough work-eligible residents to achieve economies of scale. The grants will prioritize broad and diverse local partnerships that cut across sectors, agencies, and funding streams.

Increasing the Production of Affordable Housing Capital Projects

In addition to developing tools to address the growing capital needs of America's Public Housing stock, HUD is committed to expanding the supply of affordable rental homes in safe, mixed-income communities that provide access to jobs, good schools, transportation, and, most importantly, economic self-sufficiency. Accordingly, in February 2012, FHA announced a pilot program to accelerate processing of LIHTC deals. And, in fiscal year 2013 HUD is working together with its partners to identify ways to make the Low Income Housing Tax Credit (LIHTC) program a more flexible and nimble tool for the creation and preservation of affordable housing. As the primary tool of the Federal Government for developing and rehabilitating affordable rental housing, the LIHTC program is administered by State agencies with the assistance and guidance from the Treasury Department and the Internal Revenue Service. The program attracts capital to low-income rental housing by satisfying some of the Federal income tax obligations of investors in certain low-income rental properties.

Since its addition to the tax laws in 1986, the LIHTC program has been used to create 1.8 million in affordable rental-housing units across the country. Annually, the program supports 95,000 jobs and has generated \$2.7 billion in State, local, and Federal revenues. In fiscal year 2013, as part of a broader effort to align Federal rental programs, HUD, the Departments of Treasury and Agriculture, the Domestic Policy Council (DPC), the Office of Management and Budget (OMB), and the National Economic Council (NEC) will continue partnering to allow greater flexibility to State and local agencies that administer LIHTC programs, as well as to developers and investors, to continue to enable the creation of affordable housing in markets where it is needed the most. Specifically, the revenue provisions of the 2013 Budget enhance two revenue proposals that were included in the 2012 Budget and introduce two new proposals:

An Income Averaging proposal would encourage a greater range of incomes in LIHTC-supported affordable housing by allowing developers to choose an income-limitation requirement that would be satisfied if households in the low-income units have an average income no greater than 60 percent of AMI, with no household

above 80 percent AMI. An additional provision would allow certain existing tenants to remain in residence without impairing the developer's entitlement to LIHTCs.

In the context of preserving, recapitalizing, and rehabilitating existing federally assisted affordable housing, a Basis Boost proposal would provide a second mechanism for earning "4 percent" LIHTCs and would give an extra, up-to-30-percent increase in qualified basis for certain projects that receive "4 percent" LIHTCs, either because they are at least half financed with tax exempt-bonds or because they employed the new mechanism.

A proposal concerning LIHTCs earned by Real Estate Investment Trusts (REITs) is designed to diversify the pool of investors for LIHTCs and to increase the overall demand for LIHTCs. The proposal would allow a REIT that earns LIHTCs to provide a tax benefit to its investors by paying them tax-exempt dividends in an amount almost triple the amount of the REIT's LIHTCs.

A Victims of Domestic Violence proposal would bar LIHTC buildings from discriminating against victims of actual or threatened domestic violence and would clarify that occupancy restrictions or preferences for such victims are an allowable exception to the general-public-use requirement.

Finally, the recent *Worst Case Housing Needs* report underscores what has been the case since well before the recent recession, namely, that extremely low-income renters face the most severe housing shortage and cost burden of any Americans. In addition to the Worst Case Housing Needs report, the most recent data available from the American Housing Survey shows that, for renters below 50 percent of area mean income, the shortage of affordable and available units increased from 5.2 to 6 million from 2007 to 2009, with just 39 affordable and available units for every 100 renters in 2009, compared to 44 two years prior. The 2013 Budget once again provides \$1 billion in mandatory appropriations for the Housing Trust Fund (HTF) to address this critical shortage of housing where it is most desperately needed. Enacted in 2008, the HTF was designed to provide capital resources to build and rehabilitate housing to fill this precise—and growing—gap in the Nation's rental housing market. The time has come for Congress to provide this crucial funding.

Goal 3: Utilize Housing as a Platform for Improving Quality of Life

Stable housing provides an ideal platform for delivering a wide variety of health and social services to improve economic, health, and broad-based societal outcomes. For some, housing alone is sufficient to ensure healthy outcomes, while others require housing with supportive services to assist with activities of daily living or long-term self-sufficiency, as well as proximity to crucial services. HUD's fiscal year 2013 Budget acknowledges this reality by making critical investments in housing and supportive services, and partnering with other Federal agencies to maximize resources and best practices. Moreover, these investments will save money in the long term, by avoiding overuse of expensive emergency and institutional interventions.

Preventing and Ending Homelessness, Serving Our Nation's Most Vulnerable

Nowhere is the relationship between housing and supportive services clearer than in the successful efforts in communities around the country to address homelessness. These efforts have yielded a substantial body of research, which demonstrates that providing permanent supportive housing to chronically ill, chronically homeless individuals and families not only ends their homelessness, but also yields substantial cost saving in public health, criminal justice, and other systems. This year's Budget once again invests in this critical effort, by calling for \$2.23 billion in Homeless Assistance Grants, including competitive programs that annually serve over 800,000 homeless families and individuals. This includes funding for the Emergency Solutions Grants program, which will continue the work of the Homelessness Prevention and Rapid Re-Housing Program—funded by the Recovery Act—that in the last 3 years alone has helped prevent or end homelessness for over 1.2 million people nationwide.

Moreover, HUD continues to focus on the unique needs of veterans through both its targeted homeless programs and its mainstream housing programs using successful methods and interventions. Currently, an estimated one out of every six men and women in our Nation's homeless shelters are veterans, and veterans are 50 percent more likely to fall into homelessness compared to other Americans. HUD is committed to providing affordable housing units to this unique homeless population, and has partnered with the Departments of Health and Human Services (HHS) and Veterans Affairs (VA) to develop targeted approaches to serve the homeless veteran populations. Accordingly, this Budget includes \$75 million for the HUD-VASH program, which combines tenant-based voucher assistance with case management and clinical services tailored to veterans and their families. This funding will provide 10,000 new vouchers to help veterans move from our streets into permanent sup-

portive housing, in addition to the nearly 38,000 already allocated HUD–VASH vouchers provided in previous appropriations, which have been critical to a 12 percent reduction in veterans homelessness, and the 10,000 vouchers that will be awarded through the FY2012 appropriation.

Increasing Efficiencies

The Budget modernizes the Housing Opportunities for Persons with AIDS (HOPWA) Program to better reflect the current understanding of HIV/AIDS and ensure that funds are directed in a more equitable and effective manner, including:

- A new formula that will distribute HOPWA funds based on the current population of HIV-positive individuals, fair market rents, and poverty rates in order to target funds to areas with the most need.
- The Budget also makes the HOPWA program more flexible, giving local communities more options to provide timely and cost-effective interventions. The Budget's \$330 million investment in HOPWA, in combination with the proposed modernization, will assist local communities in keeping individuals with HIV/AIDS housed, making it easier for them to stay in therapy, and therefore improving health outcomes for this vulnerable population.

Investing in Leveraging and Serving Our Most Vulnerable

This budget proposed a total of \$625 million for the Housing for the Elderly and Housing for Persons with Disabilities programs, which includes \$154 million to support 5,300 additional supportive housing units. Doing more with less, the Budget proposes reforms to the Housing for the Elderly program to target resources to help those most in need, reduce the up-front cost of new awards, and better connect residents with the supportive services they need to age in place and live independently.

Historically, HUD has provided both capital advances and operating subsidies to nonprofit sponsors to construct and manage multifamily housing for low-income people with disabilities. In an effort to maximize the creation of new affordable units in a time of funding restraints, in fiscal year 2012 HUD began providing operating assistance to State housing agencies that formed partnerships with State health care agencies for service provision to low-income persons with disabilities. These funds are used to set aside supportive units for this target population in affordable housing complexes whose capital costs are funded through Low-Income Housing Tax Credits, HOME funds, or other sources. Investing Section 811 funds under this authority allows HUD to rely on the expertise of the State housing agencies to administer the award and on the State health care agency to identify the most critical population to be served and guarantee the delivery of appropriate services. In fiscal year 2013, HUD is requesting similar authority for the Section 202 program. Drawing on lessons learned from implementation in the Section 811 program, HUD will take advantage of efficiencies inherent in these same agencies' oversight responsibilities for tax credits, HOME funds or similar housing funding. Assuming requested statutory language is enacted, up to 3,450 units could be made available with support from this project rental assistance.

Goal 4: Build Inclusive Sustainable Communities Free From Discrimination

No longer can the American economy tolerate the marginalization from the labor force of significant numbers of people because of individualized or systemic discrimination, or because they live in isolated neighborhoods of concentrated poverty. An American economy built to last requires an increased supply of affordable rental homes in safe, mixed-income communities that provide access to jobs, good schools, transportation, high-quality services, and, most importantly, economic self-sufficiency. As such, HUD's fiscal year 2013 Budget puts communities in a position to plan for the future and draw fully upon their resources, most importantly their people.

Each year HUD dedicates approximately 15–20 percent of its funds to the capital costs of housing and economic development projects throughout the country. Through this investment, HUD and its partners are able to provide better opportunities for people living in neighborhoods of concentrated poverty and segregation, and offer choices that help families live closer to jobs and schools. Programs such as the Community Development Block Grant (CDBG), and Choice Neighborhoods are targeted to areas of need, to provide locally driven solutions to overarching economic development challenges. As with HUD's rental assistance programs, HUD's capital grants—including the Public Housing Capital Fund, Choice Neighborhoods, CDBG, and HOME—tend to assist areas of great need, including communities with high unemployment.

Preserving HUD's Major Block Grant Programs for Community Development and Housing

The Budget demonstrates the Administration's continued commitment in a constrained fiscal climate to support municipalities and States as they navigate through a challenging fiscal climate. Maintaining the fiscal year 2012 CDBG formula funding level of \$2.95 billion, would allow over 1,100 State and local governments to improve living conditions in low- and moderate-income neighborhoods across the country. As the Federal Government's primary community development program, CDBG serves as the backbone of State and local community and economic development efforts. In fiscal year 2011 alone, local governments used CDBG funding to directly create and retain 21,482 jobs, not including any indirect effect on additional jobs. Moreover, in fiscal year 2011 CDBG assisted 96,615 households to maintain or gain access to safe, affordable housing; provided public service activities to 10.1 million people; and benefited approximately 4.1 million persons through public improvement investments. CDBG funding is increasingly one of the few resources available at the local level to support housing rehabilitation, public improvements and economic development—despite growing needs, local governments have often had no choice but to eliminate some of these activities from their own budgets.

The Budget also reflects the difficult choices HUD was faced with, in order to make real progress in reducing the national deficit and contribute to creating an economy built to last, by maintaining the fiscal year 2012 HOME funding level of \$1 billion—over \$600 million lower than the fiscal year 2011 funding level. The HOME Investment Partnerships program is the principal tool for the production of affordable housing for low- and extremely low income families by State and local governments. It is also the critical gap financing for LIHTC projects—it has created over one million units and an additional 250,000 households have been assisted with temporary rental assistance since the program's inception. The program leverages \$4 in other public and private funds for every HOME dollar invested, totaling more than \$88 billion over the life of the program.

Increasing Efficiencies and Undertaking Critical Reforms

The Budget includes two proposed changes to the HOME Investment Partnerships, including:

- Permitting recaptured Community Housing Development Organizations set-aside funds to be reallocated by formula as HOME funds.
- Facilitating the removal of dangerous tenants from HOME properties.

HUD issued a proposed rule on December 16, 2011, outlining changes to the HOME program to enhance performance and accountability. The public comment period closed on February 14, 2012. HUD is currently reviewing over 322 comments and expects to issue the final rule this summer. Additionally, HUD has undertaken a number of changes to the Integrated Disbursement and Information System (IDIS) to enhance accountability through exception reporting, system edits, and new narrative reporting requirements for certain projects. The first phase of improvements will be made by April 30, 2012, including system triggers for projects that are significantly delayed, including projects with infrequent draws (no draws in 12 months), and projects in final draw status for more than 120 days. The second phase of improvements will be completed by December 31, 2012.

Transforming Neighborhoods of Poverty

The President has made it clear that we cannot create an economy built to last if: a fifth of America's children live in poverty, at a cost of \$500 billion per year—fully 4 percent of GDP—due to reduced skills development and economic productivity, increased later life crime, and poor health; a growing population lives with the problems of concentrated neighborhood poverty—high unemployment rates, rampant crime, health disparities, inadequate early care and education, struggling schools, and disinvestment—all of which isolate them from the global economy.

That's why HUD's fiscal year 2013 Budget recommended \$150 million for the Choice Neighborhoods Initiative to continue transformative investments in high-poverty neighborhoods where distressed HUD-assisted public and privately owned housing is located. This will reach four to six neighborhoods with implementation grants that primarily fund the preservation, rehabilitation and transformation of HUD-assisted public and privately owned multifamily housing, and will also engage local governments, nonprofits, and for-profit developers in partnerships to improve the economic conditions in their surrounding communities. Moreover, the leveraging power that these grants have is real—to date, the five Choice Neighborhoods implementation grantees have leveraged a combined \$1.6 billion in private funds—over 13 times their total grant award amount.

The Choice Neighborhoods initiative is a central element of the Administration's interagency, place-based strategy to support local communities in developing the tools they need to revitalize neighborhoods of concentrated poverty into neighborhoods of opportunity. The Department's administration of the first rounds of funding for Choice Neighborhoods grants exemplify how our practices generate effective partnerships with local housing and community development efforts. In the past, many Federal grant programs followed a rigid, top-down, "one-size-fits-all" approach that dictated what local policy makers could and could not do rather than listening to them and providing the tools they needed to meet local needs. Having served in local government myself, I am committed to a collaborative approach responsive to local needs—and believe the results thus far demonstrate that we are making good on that commitment.

Supporting Sustainable Communities and Innovative Infrastructure Planning

Creating an economy built to last requires creating jobs here in America to discourage outsourcing and encourage "insourcing." But attracting new businesses to our shores depends on urban, suburban, and rural areas that feature more housing and transportation choices, homes that are near jobs, transportation networks that move goods and people efficiently, all while lowering the cost and health burdens on families, businesses, and the taxpayer. Unfortunately, today, congestion on our roads is costing us five times as much wasted fuel and time as it did 25 years ago, and Americans spend 52 cents of every dollar they earn on housing and transportation combined.

With these realities in mind, the fiscal year 2013 Budget supports the multi-agency Partnership for Sustainable Communities, an Administration initiative that integrates resources and expertise from HUD, the Department of Transportation, and the Environmental Protection Agency. In particular, the Budget restores funding for the Sustainable Communities Initiative, which creates incentives for communities to develop comprehensive housing and transportation plans to achieve sustainable development, reduce energy consumption and greenhouse gas emissions, and increase affordable housing near public transit. This includes \$46 million to fund about 20 additional regional planning grants to help enable communities to align public and private investments in housing, transportation, and infrastructure to strategically integrate goals for mobility, regional housing choices, and economic development. In addition, \$46 million would be invested in neighborhoods and communities to update building codes, zoning, and local planning efforts as complementary strategies to the regional grants.

We know how important these planning tools are to regional economies—particularly those which rely on integrated supply chains that cross national borders and are essential to meeting the President's charge to double U.S. exports over the next 5 years. These investments will also leverage and increase the ripple effects of other Administration proposals to overhaul America's deteriorating infrastructure, including Project Rebuild and other elements of the American Jobs Act, as we leverage increased residential and commercial construction around transit and other infrastructure investments. I would note in this connection that Senator Reed has introduced legislation (S. 1126) to formally establish Project Rebuild, and I am hopeful that the Committee will give it serious consideration.

An Economy Built to Last: Project Rebuild

The Budget includes \$15 billion in funding for Project Rebuild, as initially laid out in the American Jobs Act.

By expanding on the strong foundation created by the Neighborhood Stabilization Program (NSP), Project Rebuild adds eligibility for commercial redevelopment to balance the needs for usage of vacant commercial structures in neighborhoods; and allows private development companies to put their expertise to work. Many NSP grantees have demonstrated results, but require additional funding to address challenging market conditions. With this critical funding, we can continue to put Americans back to work, while also stabilizing the housing market for the long term.

Ensuring Inclusivity in Housing Nationwide

An inclusive community is one in which all people—regardless of race, ethnicity, religion, sex, disability, or familial status—have equal access to housing and economic opportunities. Throughout its portfolio of programs, HUD is committed to maintaining that inclusivity and providing accountability in housing and lending practices nationwide. Through inclusive development, education, enforcement of fair housing laws, expanded training and language assistance, HUD will affirmatively further fair housing and the ideals of an open society.

The Fair Housing Initiatives Program (FHIP) is critical to building and sustaining inclusive communities. FHIP is the only grant program within the Federal Govern-

ment whose primary purpose is to support private efforts to educate the public about fair housing rights and conduct private enforcement of the Fair Housing Act. In Fiscal year 2013, HUD is requesting approximately \$41 million in FHIP funds, representing the Department's commitment to fair housing, including \$28 million to support the efforts of private fair housing organizations that conduct private enforcement of the Fair Housing Act. The Private Enforcement Initiative (PEI) grantees investigate and test housing providers alleged to have engaged in discrimination. The requested amount will continue funding to support fair housing enforcement by all statutorily eligible private fair housing organizations. In addition it will fund fair housing education at the local, regional, and national levels.

The Fair Housing Assistance Program (FHAP) is a critical component of HUD's effort to ensure the public's right to housing free from discrimination. FHAP multiplies HUD's enforcement capabilities, allowing the Department to protect fair housing rights in an efficient and effective manner. In fact, FHAP agencies investigate the majority of housing discrimination complaints filed in the United States. FHAP provides funding for 98 Government agencies, including 37 States, 60 localities, and the District of Columbia, to enforce laws that prohibit housing discrimination that have been reviewed and deemed substantially equivalent to Federal law. In Fiscal year 2013, HUD is requesting approximately \$25 million in FHAP funds.

Ensuring That an Economy Built to Last Includes Opportunities for Rural Americans

The Administration has placed a significant emphasis on ensuring that America's rural communities are competitive in the global economy—particularly given the reality that rural communities generally have less access to public transportation, along with higher poverty rates and inadequate housing. Each year, HUD invests billions of dollars in rural communities through its core rental assistance programs and block grants. The Community Development Block Grant (CDBG) program allocates funds to States, which provides approximately \$692 million to rural areas, supporting over 25,000 jobs both directly and indirectly, providing needed infrastructure, economic development, and affordable housing. Because small towns and rural areas often lack the basic modern infrastructure that citizens in larger communities can take for granted, States annually spend over 55 percent of their CDBG funds on basic public improvements such as water and sewer lines, paved streets and fire stations. HUD also funds over \$300 million in rural areas for affordable housing and homeownership programs through its HOME Investment Partnerships program, directly and indirectly supporting over 5,360 jobs.

In addition, HUD and the Department of Agriculture meet regularly through an interagency rental housing policy group to better align and coordinate the affordable rental housing programs each operates. Altogether, over 800,000 families in rural communities are directly assisted through the Housing Choice Voucher, Public Housing, and Multifamily programs, with another 450,000 assisted through USDA. For homeowners, HUD's Federal Housing Administration (FHA) helps first-time homebuyers and other qualified families all over the country purchase their own home. More than 1.5 million of the homes currently insured by the FHA are in rural areas, and approximately \$545 million in current FHA loans are to rural healthcare facilities designated as "critical access hospitals." We thank the appropriations committee, for including language in the FY2013 bill, based on legislation introduced by Senator Kohl and cosponsored by other Members of this Committee, to allow FHA to provide financing for these facilities. In addition to these critical investments, targeted rural investments in HUD's 2013 Budget include:

- \$5 million in Rural Housing Stability Assistance Program (RHSP), as authorized in the HEARTH Act, designed to assist individuals and families who are homeless, in imminent danger of losing housing, or in the worst housing situations in rural communities. In addition, rural communities choosing to not apply for RHSP funding will continue to have access to HUD's targeted homeless assistance, through the Continuum of Care competition grant, in addition to the Emergency Solutions Grant (ESG) program, and the Homelessness Prevention and Rapid Re-Housing Program (HPRP). Rural areas have increasingly gained access to HUD's competitive homeless assistance grants, primarily through the creation of Balance of State and Statewide Continuums of Care, with funds allocated directly to the State. In 2011, the Continuum of Care competition included a selection priority for new projects proposing to serve 100 percent rural areas. HUD recently awarded \$15.7 million to 103 rural projects through the CoC competition.
- \$731 million to fund programs that will support housing and development initiatives in American Indian, Alaska Native, and Native Hawaiian communities.

As the single largest sources of funding for housing Indian tribal lands today, programs like Indian Housing Block Grants, Indian Home Loan Guarantees, and Indian Community Development Block Grants support development in remote areas where safe, decent, affordable housing is desperately needed by providing funds to over 550 Tribes across the country. HUD also directly supports housing and economic development initiatives in remote areas of Hawaii, through the Native Hawaiian Housing Block Grant Program and Native Hawaiian Loan Guarantee Program.

Goal 5: Transform the Way HUD Does Business

An economy built to last requires a Government that's leaner, smarter, more transparent, and ready for the 21st century. The current economic and housing crisis; the structural affordability challenges facing low-income homeowners and renters; and the new, multidimensional challenges facing our urban, suburban, and rural communities all require an agency in which the fundamentals matter and the basics function. As such, HUD remains committed to transforming the way it does business. This transformation is more crucial now than perhaps ever before—HUD remains at the forefront of the Federal response to the national mortgage crisis, the economic recovery, and the structural gap between household incomes and national housing prices—roles that require an agency that is nimble and market savvy, with the capacity and expertise necessary to galvanize HUD's vast network of partners. HUD's 2013 Budget reflects these critical roles, by investing in transformation, research, and development that will be implemented persistently over time.

The Transformation Initiative

Thanks to Congressional support for TI, past fiscal year appropriations are today funding a wide range of groundbreaking projects, including:

- Innovative, “silo-breaking” One CPD technical assistance in communities across the country that replaces a fragmented broken system with one that addresses the holistic and cross-cutting needs of our grantees, recognizing that these extend beyond the rules and regulations of any single funding stream;
- Major evaluations and demonstration programs to examine the outcomes of key Administration initiatives like the Rental Assistance Demonstration and Choice Neighborhoods, the cost to local public housing authorities of administering the Housing Choice Voucher program, different approaches to rent reform in our largest programs, the housing needs of Native American and Hawaiian communities, and the impact of housing and services interventions on homeless families;
- Replacement of 30-year-old technology and information management practices to reduce risks, and implement higher performing, and cost effective business solutions to more effectively administer the Department's rental housing assistance programs.

The 2013 Budget request once again includes transfer authority (up to 0.5 percent at the Secretary's discretion) to support ongoing improvements of program effectiveness and efficiency and to help the Department respond and adapt more effectively to its rapidly changing operating environment.¹ TI is a multiyear effort that can only be achieved through the relentless focus of agency leadership, full transparency and accountability for real results, and sustained and flexible budget resources. Since TI was first enacted in 2010, it has bolstered the long-neglected areas of IT modernization, research and evaluation, and program demonstrations crucial for increasing the efficiency and effectiveness of the Department's programs, and remains the primary source of funding for this transformation. Further, TI has provided a mechanism for innovative, crosscutting technical assistance that goes beyond program compliance to improve grantee capacity, performance and outcomes. Finally, recent crises with natural disasters, the housing market, and deep fiscal distress among State and local partners have highlighted the need for HUD to be more nimble, creative and collaborative. Setting aside a portion of HUD's program accounts through TI to better understand and enhance program results reflects recognition that planning for continuous improvement and innovation, investing in tools and capacity, and assessing results are equally integral for the operation of programs with accountability to the public interest.

¹ In the 2013 Budget, HUD estimates that it will transfer \$120 million to the TI Fund using this transfer authority.

Research and Evaluations

As an integral component of strengthening HUD's capabilities for evaluating and improving program effectiveness and efficiency, TI provides a predictable stream of funding for high quality research and evaluation of HUD's programs on an ongoing, rotating basis to inform sound policy making. HUD anticipates allocating 10–20 percent of TI transfers to Research and Evaluations in 2013. Expected projects include: a process evaluation of the evidence-based Jobs-Plus pilot, seeking to understand the effects of larger scale implementation; energy efficiency and utility costs analysis for PHAs and residents of public housing; biennial research NOFAs for Sustainable Communities Research Grants to inform local governments in preparing and planning for disasters; and a long-overdue follow-up to a 1995 HOME Affordability Study to assess affordability over time based on differing levels of subsidy.

Program Demonstrations

Program Demonstrations test new options for HUD programs that can make them more efficient and effective and establish sound evidence of whether and how these options could better achieve HUD's mission. Since the 1990s, HUD has done relatively few research demonstrations, largely due to budget constraints. Those few demonstrations, however, have been HUD's most important and informative research on real program impacts. In 2013, HUD expects Project Demonstrations to include research on the Rental Assistance Demonstration (RAD), which allows a trial conversion of public housing and certain multifamily properties to long-term project-based contracts.

Technical Assistance

Technical assistance (TA) can be seen as a “force multiplier”—making program dollars go further and helping communities do more with limited Federal and local resources. TA under the Transformation Initiative (TI–TA) allows HUD to combine assistance for different programs as appropriate, and provide customized help on the issues any particular grantee confronts.

In 2013, HUD will utilize TI–TA for activities such as: assessments and targeted interventions for PHAs; helping local government comprehensively assess market trends and implement housing and community and economic development programs through OneCPD; and targeting underlying, long-term problems like deficits and poor bond ratings through the National Resource Network. Flexible, cross-program technical assistance could also help grantees and clients adapt to new HUD policies, programs, and management approaches, and develop core skills and critical competencies required to effectively deliver HUD's programs.

Information Technology

The Budget proposes to again use TI funds for Information Technology in 2013, to reduce risks, implement higher performing standards, and cost effective business solutions.

IT transformation efforts to date have helped HUD evolve its understanding of opportunities to leverage the foundational toolsets being implemented under the FHA Transformation, the Next Generation Management project or NGMS (formerly known as NGVMS), and related infrastructure modernization projects. These opportunities include ways to further reduce the Government's risk in the marketplace, improve services to meet the needs of our citizens and employees and reduce annual operations costs. For example, recent efforts to define opportunities to reduce cost by consolidating back office business and administrative services are expected to lead to the need for capital investment to transition more of HUD's services from legacy platforms to shared enterprise services. HUD plans to use TI transfer authority in 2013 to make capital investments in IT to drive these service delivery improvements and further cost reduction efforts.

Conclusion

Chairman Johnson, this Budget reflects the Administration's recognition of the critical role the housing sector must play to ensure every American gets a fair shot, everyone does their fair share, and everyone plays by the same rules. Equally important, it expresses the confidence of the President in the capacity of HUD to meet a high standard of performance. Given the economic moment we are in, HUD's 2013 Budget proposal isn't about spending more in America's communities—it's about investing smarter and more effectively.

It's about making hard choices to reduce the deficit—and putting in place much-needed reforms to hold ourselves to a high standard of performance. But most of all, it's about the results we deliver for the vulnerable people and places who depend on us most.

I believe that this Budget will contribute substantially to economic recovery, to creating pathways to opportunity, and to an America built to last. Thank you.

ADDITIONAL MATERIAL SUPPLIED FOR THE RECORD

**WRITTEN STATEMENT SUBMITTED BY CHERYL A. CAUSLEY,
CHAIRWOMAN, NATIONAL AMERICAN INDIAN HOUSING COUNCIL****Introduction**

Dear Chairman Johnson, Ranking Member Shelby, and distinguished Members of the Senate Committee on Banking, Housing, and Urban Affairs. I am submitting this statement on behalf of the National American Indian Housing Council (NAIHC) regarding the Legislative Proposals in the Department of Housing and Urban Development's fiscal year (FY) 2013 Budget. My name is Cheryl A. Causley and I am the Chairwoman of the NAIHC, the only national, tribal nonprofit organization solely dedicated to advancing housing, physical infrastructure, and economic and community development in Native American communities throughout the United States. I am also an enrolled member of the Bay Mills Indian Community in Brimley, Michigan, and the Executive Director of the Bay Mills Indian Housing Authority. I want to thank the Subcommittee for the opportunity to submit written testimony for the Committee's consideration as it reviews the legislative proposals in the Department of Housing and Urban Development's FY2013 Budget.

Background on the National American Indian Housing Council (NAIHC)

The NAIHC was founded in 1974 and has, for 38 years, served its members by providing invaluable training and technical assistance (T/TA) to all tribes and tribal housing entities; providing information to Congress regarding the issues and challenges that tribes face in terms of housing, infrastructure, and community and economic development; and working with key Federal agencies to address these important and, at times, vexing issues, and to help meet the challenges. The membership of NAIHC is expansive, comprised of 271 members representing 463¹ tribes and tribal housing organizations. The primary goal of NAIHC is to support Native housing entities in their efforts to provide safe, decent, affordable, culturally appropriate housing for Native people.

Brief Summary of the Problems Regarding Housing in Indian Country

While the country has been experiencing an economic downturn that many have described as the worst global recession since World War II, this economic reality is greatly magnified in Indian communities. The national unemployment rate seems to have peaked at an alarming rate of nearly 10 percent; however, that rate does not compare to the unemployment rates in Indian Country, which average 49 percent.² The highest unemployment rates are on the Plains reservations, where the average rate is 77 percent.³

Because of the remote locations of many reservations, there is a lack of basic infrastructure and economic development opportunities are difficult to identify and pursue. As a result, the poverty rate in Indian country is exceedingly high at 25.3 percent, nearly three times the national average.⁴ These employment and economic development challenges exacerbate the housing situation in Indian Country. Our first Americans face some of the worst housing and living conditions in the country and the availability of affordable, adequate, safe housing in Indian Country falls far below that of the general U.S. population.

- According to the 2000 U.S. Census, nearly 12 percent of Native American households lack plumbing compared to 1.2 percent of the general U.S. population.
- According to 2002 statistics, 90,000 Indian families were homeless or underhoused.
- On tribal lands, 28 percent of Indian households were found to be overcrowded or to lack adequate plumbing and kitchen facilities. The national average is 5.4

¹ There are approximately 566 federally recognized Indian tribes and Alaska Native villages in the United States, all of which are eligible for membership in NAIHC. Other NAIHC members include State-recognized tribes eligible for housing assistance under the 1937 Housing Act and subsequently grandfathered in to the Native American Housing Assistance and Self-Determination Act of 1996; and the Department of Hawaiian Home Lands, the State agency that administers the Native Hawaiian Housing Block grant.

² Bureau of Indian Affairs Labor Force Report (2005).

³ Many of these reservations are in the State of South Dakota, which has one of the lowest unemployment rates in the Nation. On some SD reservations, the unemployment rate exceeds 80 percent.

⁴ U.S. Census Bureau, American Indian and Alaska Native Heritage Month: November 2011. See, <http://www.census.gov>.

percent when structures that lack heating and electrical equipment are included, roughly 40 percent of reservation housing is considered inadequate, compared to 5.9 percent of national households.

- Seventy percent of the existing housing stock in Indian Country is in need of upgrades and repairs, many of them extensive.
- Less than half of all reservation homes are connected to a sewer system.

There is an agreement among most members of Congress, HUD, tribal leaders, and tribal organizations that there is a severe housing shortage in tribal communities; that many homes are, as a result, overcrowded; that many of the existing homes are in need of repairs, some of them substantial; that many homes lack basic amenities that many of us take for granted, such as full kitchens and plumbing; and that at least 250,000 new housing units are needed in Indian Country.

These issues are further complicated by the status of Indian lands, which are held in trust or restricted-fee status. As a result, private financial institutions will generally not recognize tribal homes as collateral to make improvements or for individuals to finance new homes. Private investment in the real estate market in Indian Country is virtually nonexistent, with tribes almost entirely dependent on the Federal Government for financial assistance to meet their growing housing needs. The provision of such assistance is consistent with the Federal Government's well-established trust responsibility to American Indian tribes and Alaska Native villages.

The Native American Housing Assistance and Self-Determination Act

In 1996, Congress passed the Native American Housing Assistance and Self-Determination Act (NAHASDA) to provide Federal statutory authority to address the above-mentioned housing disparities in Indian Country. NAHASDA is the cornerstone for providing housing assistance to low-income Native American families on Indian reservations, in Alaska Native villages, and on the Native Hawaiian Home Lands.

The Indian Housing Block Grant (IHBG) is the funding component of NAHASDA, and since the passage of NAHASDA in 1996 and its first fiscal year of funding in 1998, NAHASDA has been the single largest source of funding for Native housing. Administered by the Department of Housing and Urban Development (HUD), NAHASDA specifies which activities are eligible for funding.⁵ Not only do IHBG funds support new housing development, acquisition, rehabilitation, and other housing services that are critical for tribal communities, they cover essential planning and operating expenses for tribal housing entities. Between 2006 and 2010, a significant portion of IHBG funds, approximately 24 percent, were used for critical planning, administration, and housing management and services.

The President's 2013 Budget Request for the Indian Housing Block Grant

President Obama released his FY2013 budget request on February 13, 2012. The PBR established total spending of level of \$3.80 trillion, up from an estimated \$3.79 trillion enacted in FY2012. This spending level includes \$44.8 billion in budget authority for HUD, a 3.2 percent increase above the FY2012 funding level.

Despite the increase in overall HUD spending, the Administration has proposed level funding for the Indian Housing Block Grant (IHBG) at \$650 million for FY2013. Were the President's budget proposal to be accepted, it would mark the third consecutive year that the budget would be flat-lined. The budget proposal also includes \$60 million for the Indian Community Development Block Grant program; the same level of funding that was appropriated in FY2012 and, inexplicably, recommends that no funding be provided for NAIHC's widely acclaimed training and technical assistance (T/TA) program. NAIHC respectfully requests that the IHBG be funded at \$700 million, which is still far short of the estimated need of \$875 million needed due to inflation. We also request the 2013 ICDBG be set at \$100 million for the much-needed housing, infrastructure and economic development activities that the ICDBG provides, and that the T/TA be funded at no less than \$4.8 million.

The NAIHC is the only national Indian housing organization that provides comprehensive training and technical assistance (T/TA) on behalf of tribal nations and their housing entities. Because they know the value added by NAIHC, the NAIHC membership has voted unanimously during each of their annual conventions since 2006, to support a resolution that seeks to set aside a portion of their own Indian Housing Block Grant funding to support NAIHC's T/TA program. In addition, NAIHC members have expressed concerns about the quality of training provided by

⁵ Eligible activities include but are not limited to downpayment assistance, property acquisition, new construction, safety programs, planning and administration, and housing rehabilitation.

HUD contractors. Again, to ensure high-quality T/TA, the NAIHC should be funded at not less than \$4.8 million.

Other Indian Housing and Related Programs

The Title VI and Section 184 Indian Housing Loan Guarantee Programs

The President's budget request includes \$2 million for the Title VI Federal Guarantees for Financing Tribal Housing Activities and \$7.0 million for the Section 184 Indian Housing Loan Guarantee Program. The Title VI program is important because it provides a 95 percent loan guarantee on loans made by private lenders, which is an incentive for lenders to get involved in the development of much-needed housing in tribal areas. NAIHC believes that the PBR of \$2 for the Title VI program is sufficient. NAIHC respectfully requests that the funding for the Section 184 program be increased from \$7 million to the \$9 million level that Congress appropriated in FY2009.

Indian Community Development Block Grant (ICDBG)

While appreciated, the President's proposal of \$60 million for the ICDBG is insufficient to meet the current needs for essential infrastructure, including sewer and running water, in Indian Country. We request that this program be funded at \$100 million.

Native Hawaiian Housing

Low-income Native Hawaiian families continue to face tremendous challenges, similar to those that tribal members face in the rest of the United States. The President's funding request of \$13 million for the Native Hawaiian Housing Block Grant is appreciated; however, NAIHC recommends this program be funded at \$20 million. And, the budget includes \$1.0 million to the fund the Section 184A program in Hawaii. The 2013 PBR of \$1 million should be sufficient to fund this important homeownership program.

Training and Technical Assistance and the Proposed Transformation Initiative

The President's proposed budget eliminates entirely the much-needed, exceptional T/TA that has been provided by NAIHC since the inception of NAHASDA. The provision of T/TA is critical for tribes to build their capacity to effectively plan, implement, and manage tribal housing programs. Eliminating funding for T/TA would be disastrous for tribal housing authorities and would be a huge step in the wrong direction. Tribes need more assistance in building capacity, not less.

Since NAIHC's funding for T/TA was restored in 2007, requests for T/TA have steadily grown. The funding that NAIHC is currently receiving is insufficient to meet the continuous, growing demand for T/TA. Therefore, we are forced to make difficult decisions regarding when, where, and how to provide the most effective T/TA possible to our membership.

The budget request proposes an agency-wide Transformation Initiative Fund (TIF) with up to 0.5 percent of HUD's total budget, which would draw funds away from essential housing programs, including \$3.3 million from the IHBG account, "to continue the ongoing comprehensive study of housing needs in Indian Country and native communities in Alaska and Hawaii." While the NAIHC membership believes the TI may have merit, we do not believe that transferring nearly \$3.3 million from the IHBG is a wise or even defensible use of IHBG funds.

More importantly, the \$3.3 million affects funding that has historically been appropriated to NAIHC for T/TA. As I have previously noted, the NAIHC membership has repeatedly taken the position that a portion of the IHBG allocation should be provided to NAIHC for T/TA, which is a reflection of their confidence in NAIHC and the continuing demand for the essential capacity-building services that we provide. We request that funding in the amount of \$4.8 million for T/TA be included in the FY2013 budget.

Conclusion

NAHASDA was enacted to provide tribes with new and creative tools necessary to develop culturally appropriate, safe, decent, affordable housing. While we value and appreciate the investment and efforts that this Administration and the Congress have made, NAIHC has very specific concerns, enumerated above, with the President's proposed budget for the Indian housing funding levels and hopes that Congress, with the leadership of this important Committee, will work with the NAIHC and the Administration to recognize the acute housing and capacity building needs that continue to exist in tribal communities.

Consider these needs against a backdrop that includes the following observation from the Government Accountability Office (GAO) in their Report 10-326, Native

American Housing, issued in February 2010 to this very Senate Banking Committee and the House Committee on Financial Services:

NAHASDA's first appropriation in fiscal year 1998 was \$592 million, and average funding was approximately \$633 million between 1998 and 2009. The highest level of funding was \$691 million in 2002, and the lowest was \$577 million in 1999. For fiscal year 2009, the program's appropriation was \$621 million. However, when accounting for inflation, constant dollars have generally decreased since the enactment of NAHASDA. The highest level of funding in constant dollars was \$779 million in 1998, and the lowest was \$621 million in 2009.⁶

I wish to conclude this written testimony by thanking Chairman Johnson, Ranking Member Shelby, and all of the Members of the Senate Committee on Banking, Housing, and Urban Affairs. The path to a self-sustaining economy is not achievable without a robust housing sector, and tribal housing conditions cannot be improved without adequate funding. NAHASDA is about building communities—not just constructing houses. I know we can count on you to support our efforts toward self-sufficiency. Together, we can continue the important work of building healthy, vibrant, and robust tribal communities throughout Indian Country.

⁶See, GAO Report 10-326 at www.gao.gov/products/GAO-10-326.

LETTER SUBMITTED BY THE NATIONAL LOW INCOME HOUSING COALITION



NATIONAL LOW INCOME HOUSING COALITION

Sheila Crowley, President April 26, 2012

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Buffalo, NY

Founded in 1974 by
Cushing N. Dolbear

The Honorable Tim Johnson
Chair

Senate Committee on Banking, Housing and Urban Affairs
U.S. Senate
Washington, DC

Dear Mr. Chairman:

As you prepare for your April 26 hearing, Legislative Proposals in the U.S. Department of Housing and Urban Development's FY13 Budget, I wanted to share with you the perspective of the National Low Income Housing Coalition on several such policy proposals.

The National Low Income Housing Coalition (NLIHC) is an organization whose members include state and local housing coalitions, residents of public and assisted housing, nonprofit housing providers, homeless service providers, fair housing organizations, researchers, public housing agencies, private developers and property owners, local and state government agencies, faith-based organizations, and concerned citizens. While our members include the spectrum of housing interests, we do not represent any segment of the housing industry. Rather, we focus on what is in the best interests of people who receive and those who are in need of federal housing assistance, especially extremely low income people.

Minimum Rents

NLIHC strongly opposes the Administration's proposal to mandate \$75 monthly minimum rents. Minimum rents only impact the very lowest income households, in this case only households with annual incomes of less than \$3,000. We urge the Committee to oppose this policy proposal, which we believe would lead to housing instability for up to 500,000 households across the United States. Of all the proposals within HUD's FY13 request, this one places the burden of addressing the nation's deficit squarely on the shoulders of the very lowest income households, those very households HUD's precious programs are set up to stably house. NLIHC is pleased that the Senate Committee on Appropriations rejected this proposal in its FY13 Transportation-HUD (THUD) spending bill, S. 2322.

Dedicated solely to achieving socially just public policy that assures people with the lowest incomes in the United States have affordable and decent homes

727 15th Street NW, 6th Floor, Washington, D.C. 20005 | tel: 202.662.1530 | fax: 202.393.1973 | info@nlihc.org | www.nlihc.org

Increased Threshold for Medical Expense Deductions; Inspections

We group the proposals regarding increasing the threshold for medical expense deductions and streamlining inspections together because, in each case, HUD requests only a portion of the overall policy reforms that would be accomplished by enactment of broad housing reform legislation, which has been under consideration by Congress for several years.

While the HUD request seeks to increase the threshold, from 3% to 10%, for deducting out-of-pocket, unreimbursed medical expenses or similar costs when determining the income of elderly or disabled households, this policy request leaves behind a key companion feature of this proposal. That is, the proposal as considered over the years would also concurrently increase the standard deduction for elderly and disabled households, to protect these households from increased costs resulting from the higher medical deduction threshold. The current House draft housing reform legislation, the Affordable Housing and Self-Sufficiency Improvement Act (AHSSIA), would increase the threshold to 10% but also increase the standard deduction from today's \$400 to \$525. NLIHC believes that HUD's policy, on its own, would harm elderly and disabled families participating in HUD's housing assistance programs. NLIHC is pleased that the Senate Committee on Appropriations did not include HUD's version of this proposal that does not include an increase in the standard deduction in its FY13 THUD bill.

HUD's FY13 proposal would also allow public housing agencies to shift to biennial inspections for voucher units and allow reliance on alternative inspections for purposes of qualifying a unit for voucher assistance. But, HUD's proposal leaves out a provision long in AHSSIA and its predecessors. The other half of this inspection streamlining proposal would allow PHAs to abate rental payments if the apartment owner fails to correct deficiencies. NLIHC supports the AHSSIA's provisions requiring the use of up to two months' abated funds for relocation assistance, including security deposits and moving expenses, if tenants in deficient units must move because of an owner's failure to remediate identified problems. NLIHC would not support the streamlining of the inspection process for public housing agencies and owners when the portion of the proposal very beneficial to tenants is left out. NLIHC hopes the Senate will consider including this important component of the provision in its final FY13 THUD spending bill.

Sponsor-Based Housing Vouchers

Improving access to housing for homeless people with significant barriers is an extremely important goal. Current programs are insufficient in meeting this need. The sponsor-based approach represents a major change to voucher law and NLIHC is working with HUD and other stakeholders to reach consensus on a way to achieve the goals of this proposal while learning from the great advances in the Housing First field. It is NLIHC's hope that stakeholders will reach an agreement on a demonstration that will be included the Senate's FY13 THUD bill.

Generating Revenue, Fairness and Access

NLIHC supports HUD's FY13 policy proposal to require housing agencies to set rent limits to at least 80% of fair market rent. While generating revenue, this policy also brings a measure of

fairness to the rents paid by the highest income public housing tenants who choose to pay a flat rent. We also support the phasing in of any rent increases for these households. NLIHC also supports HUD's proposal to revise the definition of "extremely low income" as the greater of 30% of area median income (the current definition) or the federal poverty line issued by the Department of Health and Human Services. We expect a revised definition to allow more rural households to access HUD's programs simply because 30% of AMI in rural, very poor areas is so low that few families qualify for assistance. NLIHC is pleased that the Senate Committee on Appropriations included these provisions in S. 2322.

Thank you for considering our views.

Sincerely,

A handwritten signature in cursive script, reading "Sheila Crowley". The signature is written in dark ink and is positioned above the printed name and title.

Sheila Crowley
President and CEO